

AR57

ipSCO inc.

1997 ANNUAL REPORT

IPSCO Inc. had its beginnings in 1956 as a pipe manufacturer using purchased steel coil as a feedstock. The company began production of its own steel in 1960 and quickly evolved into Canada's major western steel company. Today, the steelmaking capacity of the company is 2,250,000 tons per year of which 55 percent resides in the United States with the balance in Canada.

The company is publicly traded, being listed on both the New York and Toronto Stock Exchanges, with the majority of shares widely held.

IPSCO employs directly and through its subsidiary companies more than 1,700 people.

IPSCO's long-term goals are to:

- be a leading supplier of wide and thick carbon hot rolled coil and discrete plate in Canada and the United States;
- become a major player in certain special steel markets, especially tubular products and alloy steels, in North America;
- be a leading processor of wide and thick carbon hot rolled coil into cut-to-length product;
- earn an average return on shareholders' equity which is among the leaders in long-term profitability in the carbon steel industry;
- be a reliable employer with excellent working conditions; and
- be a good corporate citizen in the communities in which it operates.

The Front Cover

IPSCO Tubular Inc.'s Camanche Works underwent a modification during 1997 that provides for increased capacity and improved finishing operations. Pictured here is the new ultra high-speed finishing line.

The Annual Meeting

The shareholders' annual and special meeting will be held on 24 April 1998 at the Turvey Centre, Regina.

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Provided as self-contained documents as a service to shareholders

Management's Discussion and Analysis and Audited Financial Statements

40-F

Introducing IPSCO

The Year at a Glance

IPSCO

Inc.

1997

ANNUAL

REPORT

Year ended 31 December	1997	1996	% Change
Coil and Plate Tons Produced•	1,058.9	969.4	9
Finished Tons Shipped•	1,390.6	1,160.1	20
Man-hours per Ton Shipped	2.32	2.41	(4)
Sales*	\$1,025.6	\$804.9	27
Net Income*	\$132.2	\$83.3	59
Percent Earned on Shareholders' Equity	15%	11%	36
Per Common Share			
Net Income	\$4.88	\$3.07	59
Dividends	\$0.48	\$0.48	-
Working Capital at Year-End*	\$358.3	\$352.1	2
Current Liabilities Coverage by Current Assets (Number of Times)	2.4	3.0	(20)
Long-Term Debt at Year-End*	\$418.0	\$385.6	8
Percentage of Long-Term Debt to Total Capitalization	31%	33%	(6)
Capital Asset Expenditures for the Year*	\$231.2	\$126.6	83
Number of Common Shares Outstanding at Year-End*	27.1	27.1	-
Average Employment	1,710	1,508	13

• in thousands

* in millions

Note Regarding Forward-Looking Statements

Certain statements contained in each of the sections of this Annual Report, as well as in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Form 40-F" and "Introducing IPSCO" constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from future results, levels of activity and achievements expressed or implied by such forward-looking statements. Such factors include, among others: general economic conditions, the demand for the specific steel products of the company, expected time of completion of commissioning of the U.S. Mill and estimated costs in connection with this project, the impact of new North American steelmaking capacity and the level of steel imports into the North American market, trade sanction activities, supply and demand for scrap steel and iron, alloys and other raw materials, supply and demand for the electricity and natural gas used by the company, changes in environmental and other

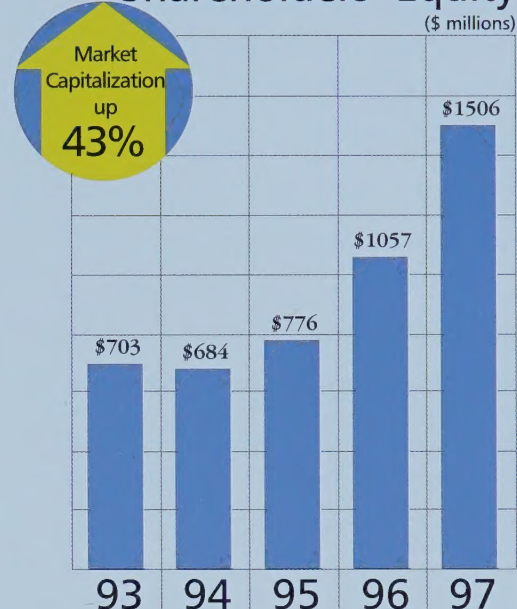
regulations and the magnitude of future environmental expenditures, North American interest rates, exchange rates and, the level of demand outside of North America for steel products. As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity and achievements.

For the fourth year in a row IPSCO generated record profits with after-tax income of \$132 million, 59 percent higher than the previous year. Shareholders will benefit directly from the company's enhanced financial situation through a 56 percent increase in dividends starting in 1998.

Shareholders saw the value of an IPSCO share traded on the stock markets increase by 43 percent from 31 December 1996 to year-end 1997, while most other Canadian and U.S. steel companies saw the value of their shares depreciate. IPSCO management obviously has no direct control over its share prices but the relative valuations assigned by the market constitute tangible evidence that the company's performance is broadly recognized. In this regard it is interesting to note that at year-end, measured by market capitalization, IPSCO was the fifth largest publicly-traded carbon steel producer in the U.S. and Canada.

Total tonnage sales increased by 20 percent over 1996 with the largest gains in energy tubular products. Dollar sales exceeded \$1 billion for the first time.

Market Value of Shareholders' Equity



Canadian real economic growth surpassed that of the United States although fundamentally the U.S. economy was more robust. Thus while IPSCO's American sales remained strong those in Canada shot ahead of 1996 by 27 percent as the Canadian economy started to catch up with that of the U.S.

Because overall demand for IPSCO products substantially exceeded its steelmaking capability the company was able to manage its product mix, concentrating on more profitable sales in both a geographic and product line sense. In addition substantial quantities of steel were purchased to augment IPSCO's own production, but only in cases where incremental profit could be

generated. Since realized selling prices play a much more important role in a steel company's profitability than sheer volume, IPSCO's ability to manage its order input in 1997 was the single most important contribution to its financial success. Indeed, average unit selling prices increased despite the negative impact of burgeoning offshore flat rolled steel imports to both Canada and the United States.

IPSCO's Regina Steelworks produced record tonnages of flat rolled steel while exhibiting excellent cost performance. Also straining capacity limits were the company's Canadian oil country tubular goods and smaller diameter line pipe facilities.

Lost time accident frequency at .9 accidents per 100 man years of work was excellent when compared to industry-wide performance, which is estimated to be over double IPSCO's frequency, but was higher than IPSCO's .6 figure for 1996. The severity of IPSCO accidents was lessened, however.

IPSCO took over operation of its Montpelier Steelworks on

3 November, substantially later than the second quarter prediction made by the general contractor a year ago. The repeated failure of the contractor to live up to its delivery promises constituted IPSCO's major disappointment of 1997. The new mill is now undergoing an estimated six-month commissioning phase. So far the quality of product shipped has been excellent and production efficiencies have been normal for this stage of startup.

IPSCO's American pipe mills located in Camanche, Iowa and Geneva, Nebraska each underwent modernizations bringing their combined capacity to 345,000 tons per annum. The installation of a stand-alone coil processing facility of 150,000 tons annual capacity was completed in Regina. Major expenditures were made on the start of a modernization of the company's Regina large diameter pipe mills.

The continuous caster and melt shop facilities at the Regina Steelworks, previously financed through an operating lease, were purchased outright in mid-year.

A significant strategic acquisition was the purchase of 51 percent of

IPSCO's senior management gathered at the newly installed coil processing facility in Regina. In the background IPSCO personnel manoeuvre a coil onto the cut-to-length line using remote controls.

From left to right on ground - Charles Backman, David Sutherland, Charles Sanida, Joe Russo, Roger Phillips

From top to bottom on steps - John Tulloch, Mario Dalla-Vicenza, Peter MacPhail, Bob Rzonca, Ed Tiefenbach

All capital spending discussed in this Annual Report is reported on an accrual basis except in the financial section where generally accepted accounting principles require that capital spending be reported on a cash basis for purposes of discussing the statement of changes in cash position.



IPSCO's major Canadian scrap source with an agreement to acquire 100 percent by 2002.

Spending on the forementioned and other projects in both Canada

and the U.S. totalled \$231.2 million, of which \$102.5 million was spent on the Montpelier mill. It is IPSCO's policy to maintain its key existing facilities at state-of-the-art or near

state-of-the-art condition but its capital program is adjusted to take into account market and financial conditions.

During the year IPSCO announced two major projects which will strengthen the company's value-added sector and enhance its long-term ability to use either IPSCO-manufactured or purchased steel as profit opportunities dictate. These were a Canadian \$25 million state-of-the-art coil processing facility in Toronto, with an ultimate capacity of 300,000 tons per annum and a U.S. \$25 million ultra highspeed low production cost small diameter pipe mill in Blytheville, Arkansas, also of 300,000 tons per annum capacity. Major spending will take place in 1998 with startups of the facilities planned for late 1998 and early 1999, respectively.

IPSCO continued its policy of ensuring both employees and the communities in which the company operates benefit from its financial success. Charities and community services received some \$1.1 million, 1.5 percent of the company's after-tax profits averaged over the previous three years. Excluding management performance bonuses IPSCO

employees at all levels received \$9.1 million in the form of company shares and cash as the result of various profit sharing plans in force in the company.

Three major labour negotiations were concluded during the year presaging several years of industrial peace. IPSCO unionized workers at Regina, Calgary, and Edmonton signed a contract expiring 31 July 2002, workers at Red Deer, Alberta signed a contract expiring on 31 December 2001, and employees at subsidiary Paper Cal Steel of St. Paul entered into an agreement which terminates on 10 March 2000.

Financial

Net earnings in 1997 increased by 59 percent to a record \$132.2 million on shipments of 1,390,600 tons.

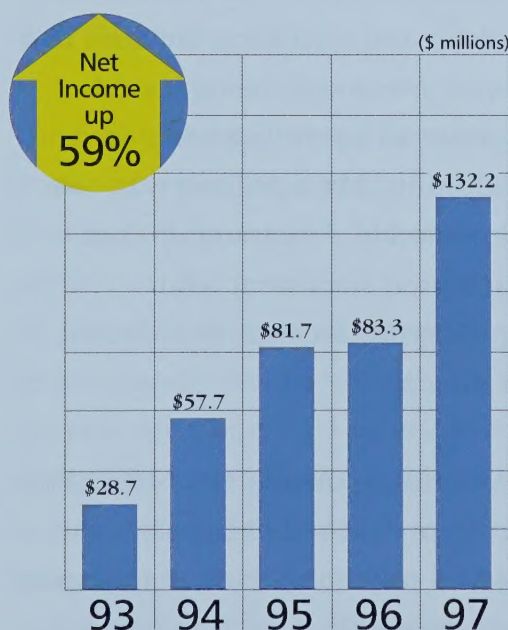
Earnings per share on the 27.1 million shares outstanding in 1997 also increased by 59 percent to \$4.88 from \$3.07 in 1996. On a book basis the annualized rate of return on common shareholders' equity was 15 percent in the first quarter, 14 percent in the second quarter, 15 percent in the third quarter and 17 percent in the fourth quarter. For the year the return on equity increased to 15 percent from 11 percent in 1996.

Earnings Per Share

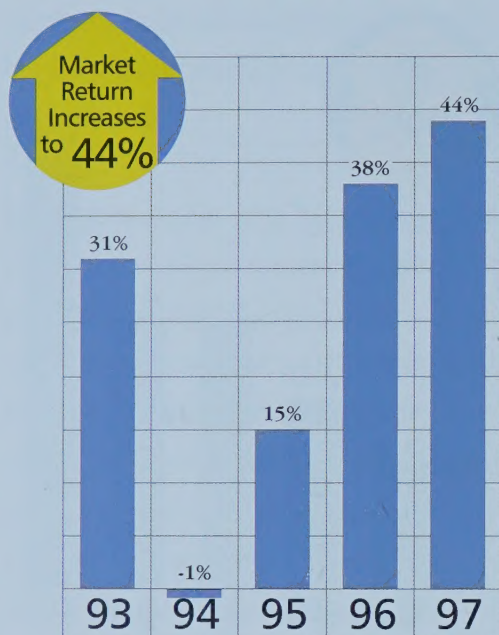


The return on equity is noteworthy for two reasons. First, there is a large accumulated investment in the United States mill and its related working capital which, because it is in the commissioning stage, is not generating any return. Second, the money that is to be used to complete the new mill and fund the balance of its working capital requirements is being temporarily invested in high quality short-term securities with returns much lower than the return being generated by the operating business.

Net Income



Market Return



On a market basis the return on shareholders' investment in 1997 was 44 percent, compared to 38 percent in 1996. Share prices increased 43 percent compared to 37 percent in 1996 while dividends paid per share were constant at \$0.48 adding one percent to the return in each year.

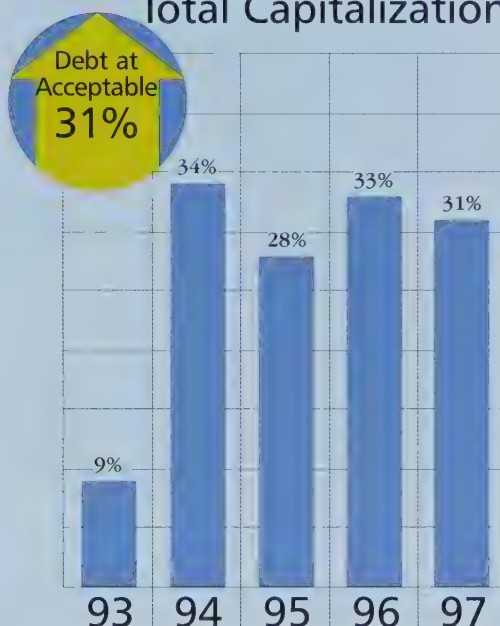
During 1997 working capital provided by operations was \$134.6 million and non-cash operating working capital was increased by \$60.1 million which resulted in a net of \$74.5 million of cash being generated from operating activities. Higher sales levels plus the startup of the new steel mill in the United States caused the increase in non-cash

operating working capital. A total of \$19.8 million in cash was raised through the issuance of U.S. \$14.7 million of Solid Waste Disposal Revenue Bonds. In addition, \$.5 million was raised from shares issued pursuant to the share option plan and the cash effect of notionally translating foreign subsidiaries to Canadian dollars was \$6.8 million.

Dividends of \$13.0 million were paid out, \$1.5 million of long-term debt was repaid, and \$228.1 million was expended on capital assets of which \$92.5 million was funded from maturing long-term securities. Included in expenditures on capital assets is the \$53.2 million spent to acquire the continuous caster and melt shop facilities that were previously being leased under an operating lease. In addition, \$16.4 million was invested in a partnership that acquired steel scrap and processing facilities in western Canada.

As a result, during 1997 IPSCO's cash position decreased by \$64.9 million to \$161.8 million at 31 December.

Debt as a Percentage of Total Capitalization



At 31 December 1997 IPSCO's long-term debt as a percentage of total capitalization decreased to 31 percent and its ratio of current assets to current liabilities decreased to 2.4 to 1 compared to 33 percent and 3.0 to 1 respectively at 31 December 1996.

The Solid Waste Disposal Revenue Bonds previously mentioned were issued on 5 June 1997. Interest payable on the bonds is six percent per annum, payable semi-annually, for an initial ten-year term ending 1 June 2007. At that time IPSCO has the option to either extend the term of the loan at an interest rate to be negotiated or retire it. The final

maturity of the loan can be no later than 1 June 2027.

Early in 1997 IPSCO's bank line was renegotiated with the existing consortium of five Canadian, American, and European banks. The line was increased by 25 percent to Canadian \$250 million with 70 percent of the line committed to December 2001. The remaining 30 percent is subject to annual renewal.

Lending rates were reduced and certain covenants were either reduced or eliminated entirely. The company's line of credit can be drawn at prime rates or less, in either Canadian or United States funds, subject to maintaining the same current assets to current liability ratio and long-term debt to total capitalization percentages that are required to raise further long-term debt. At 31 December no amount was drawn on this line.

Also during the year, IPSCO entered into an agreement with a major financial institution that would allow \$50 million of trade receivables to be sold under a securitization program. No receivables have been sold under this agreement.



IPSCO presented the shares purchased by the company at its listing ceremony on the New York Stock Exchange to two Iowa organizations. Pictured here are members of the Montpelier and Camanche, Iowa employee donations committees and Katy Doherty. Katy accepted the shares on behalf of the Children's Miracle Network. Shares were also presented to the Eastern Iowa Community College District.

In December 1997 the company introduced four changes of potential benefit to shareholders. First, a three for two stock split was declared by way of payment of a stock dividend payable on 9 March 1998 to shareholders of record at the close of business on 28 February 1998. The stock split will increase the number of outstanding shares of the company from approximately 27.1 million to approximately 40.7 million shares. Second, effective with the cash dividend payable on 31 March 1998 to shareholders of record on 16 March 1998 a 56 percent increase in the quarterly dividend was approved. This is equivalent to an annual dividend of \$0.75 per common share on a pre-split basis compared with the annual dividend of \$0.48 per common

share that was in effect prior to the split. Third, effective with the 31 March 1998 dividend payment, the company will be paying its United States shareholders the U.S. dollar equivalent of the declared dividend, net of applicable withholding taxes. And fourth, a dividend reinvestment and share purchase plan was created for shareholders. The plan which is effective 1 January 1998 will allow shareholders to increase their investment in IPSCO by reinvesting IPSCO dividends and making optional investments of up to \$5,000 per quarter or \$20,000 per annum (or the U.S. dollar equivalent) to purchase additional shares of the company.

Sales

Tonnage shipped at 1,390,600 tons and sales of \$1.03 billion were a record in both volume and revenue. Tonnage was 20 percent higher than 1996 which, in turn, excluding bar products discontinued in 1995, was 20 percent higher than 1995.

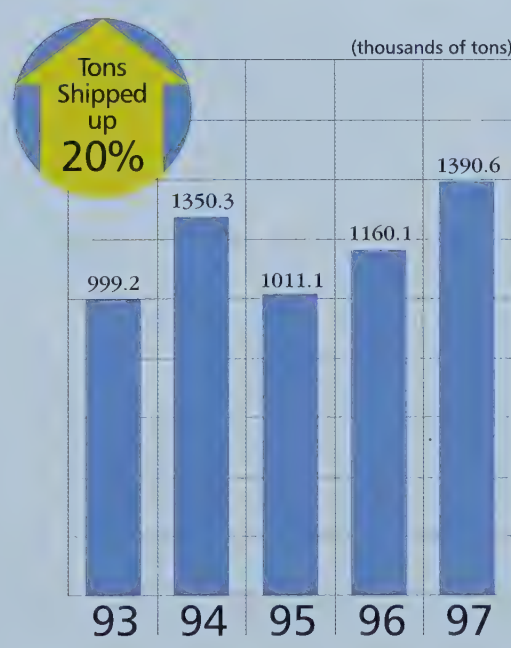
Demand for IPSCO products exceeded once again the company's internal steelmaking capability and price levels were adjusted to ensure that any sales could economically support the cost of steel purchases used by IPSCO's value-added manufacturing operations. The effect of such a pricing policy was to divert IPSCO's sales to geographic and product areas

Sales Dollars



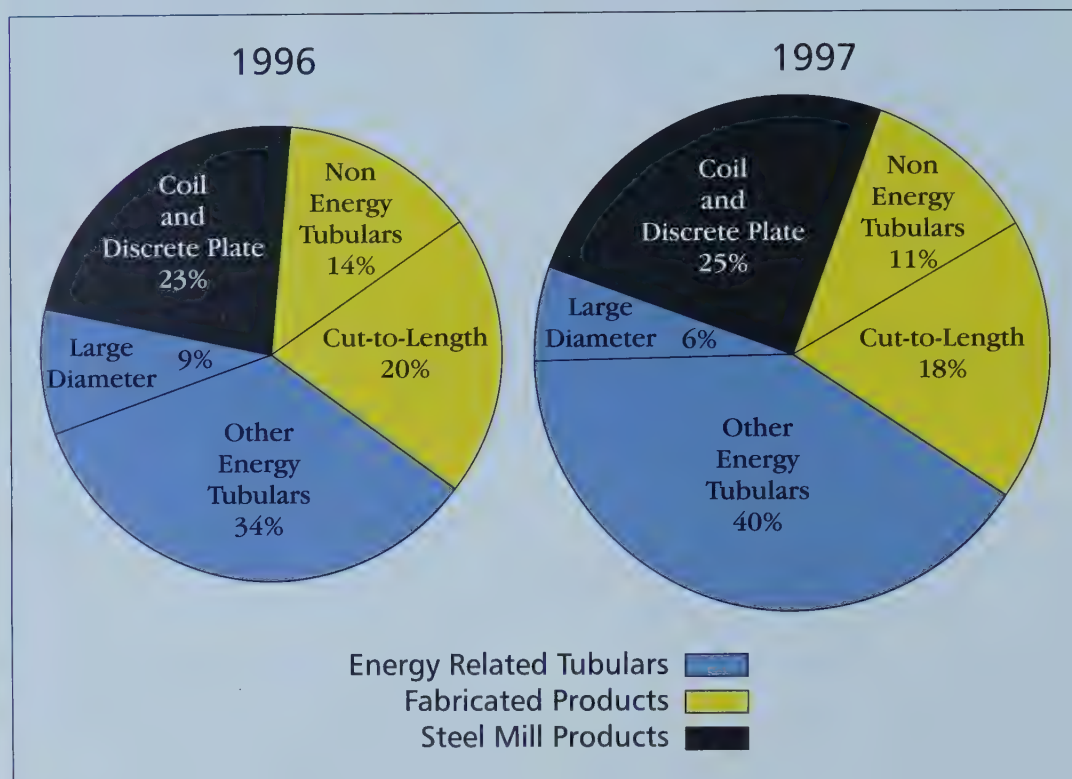
giving the best profits and thus year-to-year comparisons do not necessarily reflect demand changes but rather product mix adjustments serving to maximize the company's rate of return.

Tons Shipped



While the American economy was more robust in overall terms, real economic growth in Canada exceeded that of the United States as Canada started to catch up somewhat on the U.S. This, combined with a boom in natural resources in Canada, saw IPSCO's tonnage sales rise 27 percent in Canada and just over three percent in the United States. Canadian customers accounted for 74 percent of IPSCO sales with the balance being purchased by American-based companies.

Distribution of Sales by Product



Although large diameter tubular products dropped to 6 percent of total sales in 1997 profits were at record levels.

The average unit selling price for IPSCO increased some seven percent. While many products saw modest price improvement, downward price pressure was felt where IPSCO's value-added products competed against manufacturers who were highly dependent on imported steel and in garden variety steel mill products which are easily imported. Offsetting this import related pressure was a product mix which saw a greater proportion of higher priced items.

Plate products produced by the company were in high demand throughout the year.

Steel Mill Products

Shipments of 346,900 tons were 29 percent higher than the previous year. Both coil and discrete plate saw double digit increases. Canadian sales were bolstered by high demand for coil from third party tubular and coil processing operations that enjoyed Canada's energy boom. Plate

shipments were impacted by a boost in U.S. transactions late in the year as the Montpelier Steelworks made its initial shipments. A combination of price increases and decreases throughout the year meant that on a full year-over-year comparison basis the average unit price advanced slightly more than two percent.





Energy Related Tubulars

This group includes products used for both downhole and transmission applications in the oil and gas industry. Shipments at 638,700 tons were 29 percent higher than 1996. Oil country tubular goods (used as well casings and to channel oil and gas to the surface) and small diameter line pipe (used to hook up wells to transmission systems) saw a 54 percent rise, large diameter spiral weld gas transmission pipe was down 17 percent while mid-range line pipe (16 to 24 inches in diameter) was almost unchanged.

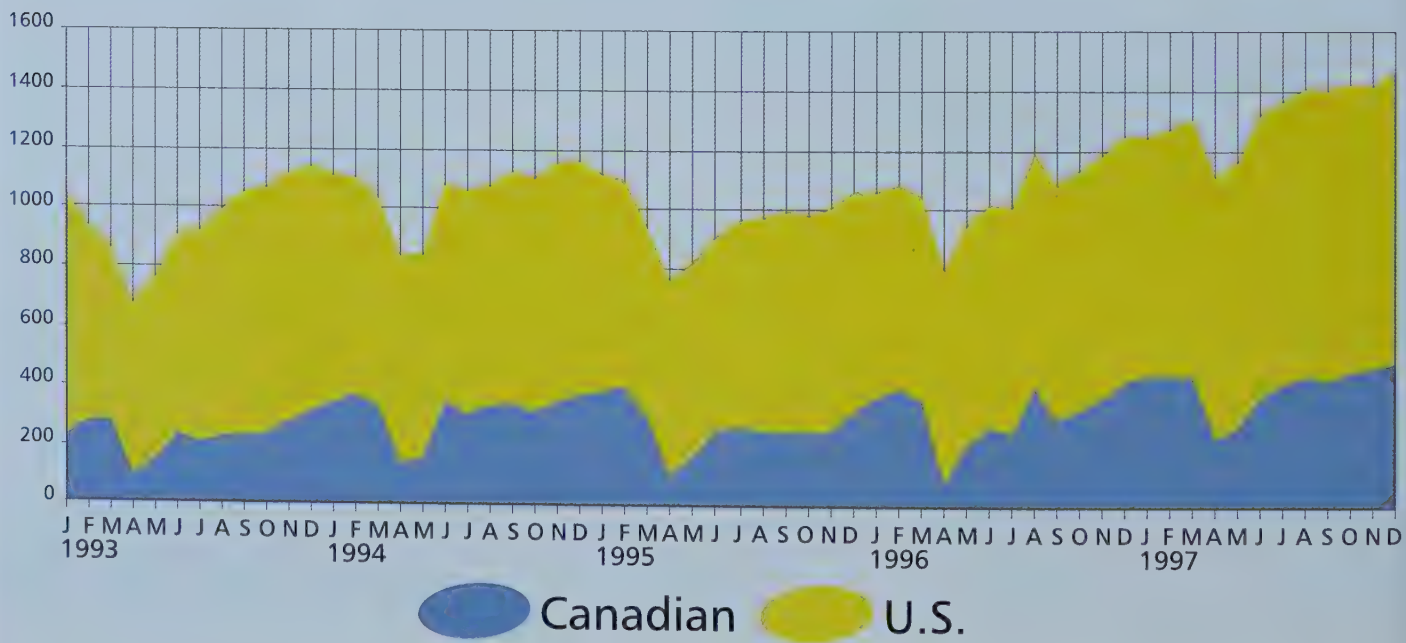
IPSCO's growth in oil country tubulars and small diameter line pipe manifested itself in both Canada and the U.S. but Canada saw the lion's share. IPSCO's American sales of these products are currently constrained because its Iowa and Nebraska producing locations are relatively remote from the energy producing areas.

Although there was a flurry of announcements with respect to large diameter oil and gas transmission line projects many of the resultant pipe orders were for post-1997 production. IPSCO was successful in attracting some 1997 business but it was concentrated mostly in the last third of the year.

Rigs drilling in both Canada and the U.S. were at the highest level experienced in the last five years.

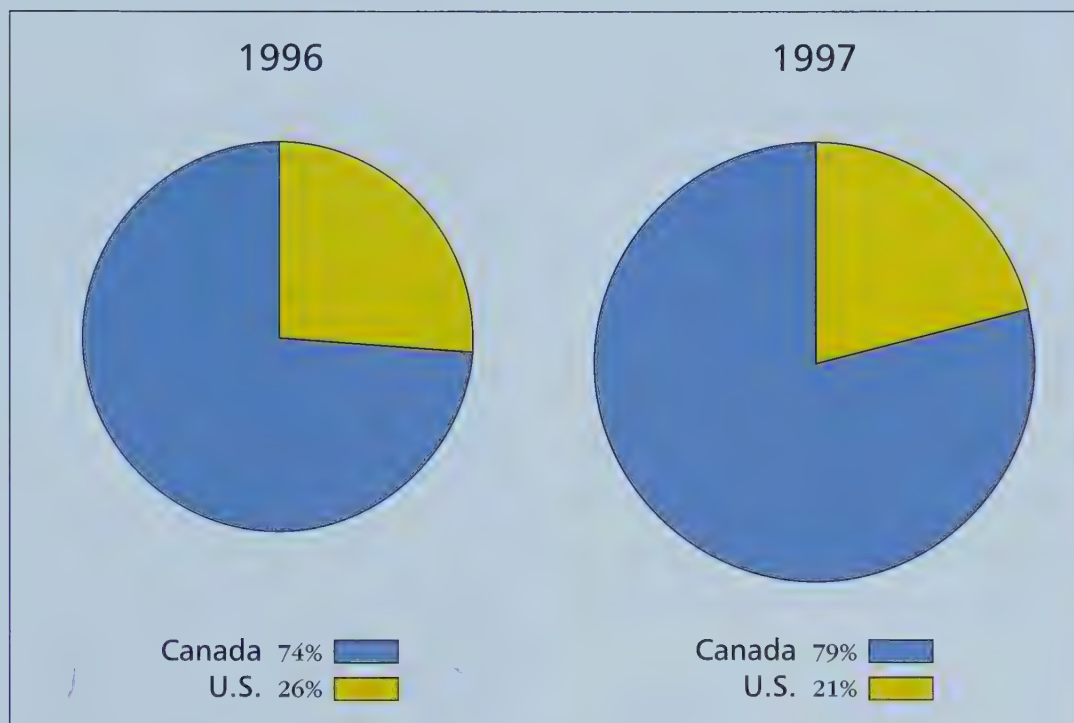


Oil and Gas Well Rigs Drilling



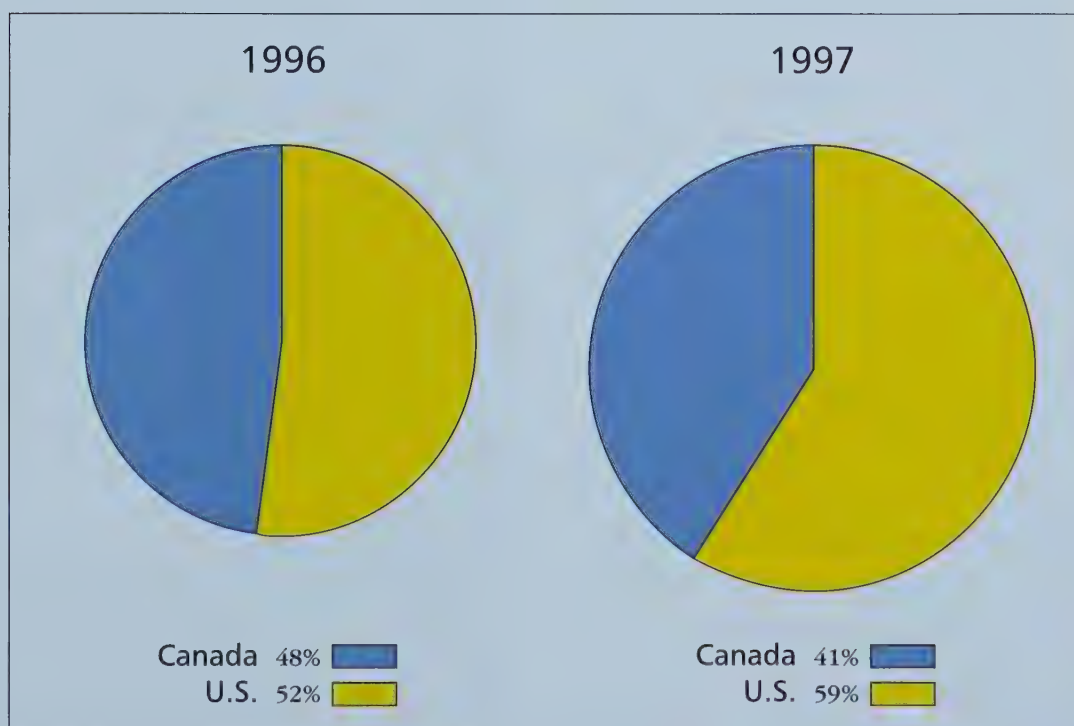
Sales Dollars

While sales in the United States remained strong, higher real growth in the Canadian economy resulted in a 37% sales increase in Canada.



Spending Dollars

The share of IPSCO spending in the United States continues to increase apace with the company's rapid expansion in the United States.



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Average unit selling prices for energy related tubulars advanced almost 10 percent on a year-to-year basis, reflecting strengthening across the board, but particularly in large diameter transmission pipe.

Fabricated Products

Comprising all IPSCO value-added products excluding energy tubulars, this group saw tonnage shipments of 405,000 tons, a mere two percent increase overall compared to 1996. While these shipments were historically strong for IPSCO, coming after the previous year's 23 percent increase, and thus 25 percent over 1995 levels, the company did eschew less than optimal profitability items in the hollow structural and standard pipe areas in favour of energy tubular opportunities. Cut-to-length shipments were up nine percent while hollow structurals and standard pipe were down four and 13 percent respectively as compared to the year before.

Average unit selling prices for the group as a whole were up just over two percent on a year-over-year basis as low priced imports of steel feedstock used by

competing tubular and cut-to-length producers resulted in downward price pressures.



Operations

The operating level of a particular IPSCO unit ultimately depends on economic factors such as overall demand and potential profitability. In the past, with demand being low, IPSCO manufactured all the steel it needed to serve both third party customers and its captive tubular products and coil processing facilities, except for a few size ranges and grades for which it was not equipped to produce. With demand exceeding internal steelmaking capability, steel production has been supplemented by purchases from other steel producers. But because of the high freight costs inherent in the location of some IPSCO plants relative to other steel producers the amount of purchased steel which can be used profitably is not unlimited.

In 1997 conditions were such that IPSCO could run its own steelmaking at virtually full capacity and also purchase some 475,000 tons of steel from third parties, up from 295,000 tons a year earlier.

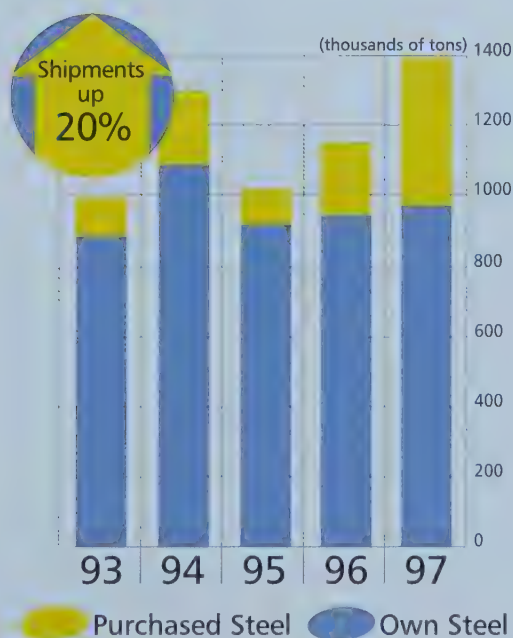
High equipment utilization often means high levels of efficiency and this was the general rule throughout the IPSCO group.

Raw Materials

Excluding its U.S. steel facility, which has only recently been turned over by the general contractor, IPSCO consumed some \$270 million of raw materials and energy in 1997. These ranged from iron and steel scrap, electricity, natural gas, alloy materials, carbon electrodes, refractories and lime, to a miscellany of other items.

IPSCO has in the past generally sourced these materials from others but recently has taken an ownership position in scrap collection and processing for a part of its needs. When a subsidiary, Western Steel Limited closed its small Calgary steel reinforcing bar facility in 1995 IPSCO formed a subsidiary, IPSCO Direct Inc., to collect some of the

Shipments



Structural steel sold through IPSCO's coil processing facility in Surrey is incorporated into the new forestry building being erected on the University of British Columbia campus.

material which Western Steel had been consuming, for forwarding to the Regina Steelworks.

Subsequently, IPSCO entered into an agreement to purchase by 2002 the major scrap collector and processor that supplies the Regina steelmaking facilities from its scrap collection and processing operations in western Ontario, the prairie provinces, and the contiguous U.S. states. In April 1997 IPSCO took the first step in that process by becoming a 51 percent owner of the General Scrap Partnership.

Scrap processed through the captive operations of IPSCO Direct and General Scrap accounted for 46 percent of IPSCO Regina's scrap needs in 1997.

The average cost of scrap consumed in both the Regina and Montpelier Steelworks decreased by a slight amount (less than 3/4 percent).

Steelmaking

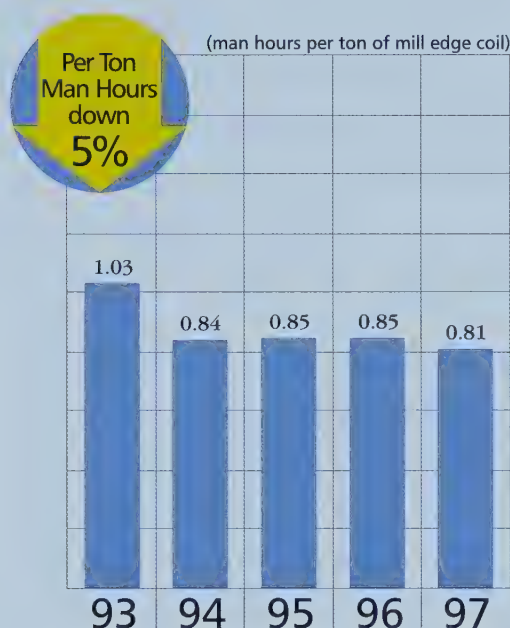
Steel production at the Regina and Montpelier Steelworks combined amounted to 1,137,900 slab tons with Regina producing slightly over one million tons on its own.

Regina saw capacity utilization of 92 percent which was once again held down in part by power outages as the supplying utility experienced a rash of maintenance problems. The Montpelier Steelworks has only been under IPSCO's full control since 3 November and during its startup and commissioning phase utilization figures are not a good measure (slab output for the November-December period was about 25 percent of capacity). Under an early use agreement with the contractor IPSCO was able to sporadically produce some slabs over the June to October period. These were shipped primarily to Regina for rolling to finished product, replacing to some extent the steel production lost due to electrical outages.

Production of flat rolled steel in coil and discrete plate form totalled 1,058,900 tons, with over one million tons coming from Regina, the balance being produced in Montpelier from 3 November to year-end.

The Regina Steelworks demonstrated excellent costs with the average cost of a ton of mill edge coil decreasing by just over two percent.

Man Hours



Man hours per ton required to produce a ton of coil or plate at Regina averaged .81, down from .85 a year earlier. The company believes that given the age of the Regina Steelworks, this figure is excellent and surpassed in the industry by only the newer vintage thin slab mini-mills.

Coil Processing

IPSCO's coil processing facilities in Regina; Surrey, British Columbia; and St. Paul, Minnesota primarily convert steel coil from both the company's own production and from other steel manufacturers to "cut-to-length" steel, typically in thicknesses from one sixteenth of an inch to one half of an inch and

in lengths of up to 62 feet. In 1997 these facilities handled a total of 279,000 tons despite the distraction of major facility upgrades taking place in Regina and St. Paul.

Tubular Production

IPSCO's Canadian small diameter pipe mills operated at record capacity levels so despite somewhat lower production figures than in 1996 for large diameter spiral pipe, and shutdowns in the U.S. for major capital improvements, a record 736,000 tons of tubular products were produced.

The Calgary, Red Deer, and Edmonton, Alberta small diameter facilities saw utilization rates of 77 percent on a combined basis as demand for oil and gas well casing and tubing, and small diameter line pipe used for oil and gas collection and connections to the larger diameter transmission lines, was at an historic high. To assist in meeting the demand, finishing capacity for casing in Canada was doubled. Edmonton Works reached the highest operating level for small diameter pipe since 1973.

The large diameter spiral pipe mills in Regina were held back by lack of demand until August but worked full out after that time, save for shutdown periods needed for equipment upgrades. Average utilization was 33 percent. The 16 to 24-inch diameter ERW mill in Regina saw sporadic utilization at 27 percent.

Utilization of the company's U.S. pipe mills was restrained by shutdowns for major upgrades at both the Geneva, Nebraska and Camanche, Iowa locations in the first half of the year and subsequently by normal startup

learning curves. Average utilization for the year was 33 percent. When fully on stream the combined capacity of these two mills will be some 345,000 tons.

Cost control was in evidence as the cost of converting one ton of steel coil to one ton of pipe increased an average of less than one percent over 1996. Man hours per ton required to produce one ton of finished product from one ton of steel fell almost five percent to 2.49 from 2.61 a year earlier.



Research and New Product Development

IPSCO's research and development activities are carried on in-house at its Regina based research laboratory, in externally sponsored activities at various universities, and through industry-level consortia.

Given IPSCO's recent major physical expansion in plant facilities and ongoing sales growth, 1997 saw the concurrent need for expanded research activities fulfilled through a \$300,000 expansion of the central research facility as well as a modest increase in staffing levels. IPSCO spent \$2.9 million on research and development activities in 1997.

The nature of steel manufacturing is such that many innovative ideas cannot be tested out thoroughly at the laboratory scale and, consequently, IPSCO often uses its full production facility as a research and development tool. This is often done as part of a normal production run and its cost is not readily captured under the rubric of research and development. Thus, IPSCO's 1997 recorded level of direct spending on research and development activities, which amounted to \$2.9 million, does not portray the full extent of such activities.

In addition to permanent research staff IPSCO utilizes five positions through which so-called "co-op" university students are hired during pre-scheduled breaks in their academic calendar. Typically such students are employed for periods of four months. Thus, while at any given time there are five positions filled in this way as many as 15 individuals go through these "co-op" jobs in a given year. In 1997 students from the University of British Columbia, McGill University, the University of Alberta, the University of Regina, and the University of Toronto were employed in this fashion.

In the product development field IPSCO saw progress in three areas involving tubular products.

Coupled with equipment modifications, discussed elsewhere in this report, which will put IPSCO in the forefront of high strength line pipe production designed for high operating pressures, it was necessary to develop the metallurgical practices which would permit the manufacture of "X80" line pipe in thicknesses up to .600 inches and "X70" up to .685 inches. "X80" has a yield strength of 80,000 pounds per square inch while the comparable figure for "X70" is

IPSCO's Red Deer facility utilizes coiled steel produced in Regina to make hollow structural products.

70,000. These are over twice the strength of steel used to cover automotive bodies.

The successful development of these practices means that operating pressures of up to 1,440 pounds per square inch (compared to the normal 1,000 psi in Canada) can be used. Higher pressures mean higher volumes of gas can be transported in a given diameter of pipe.

An experimental alloy for use in oil well casing applications, subject to extreme corrosive and temperature conditions, has passed bench scale testing. If further evaluations are positive it will be marketed in conjunction with IPSCO's proprietary QB2 coupling.

Roofless vehicles, be they farm equipment, construction equipment, or "four by fours", typically utilize structures called "ROPS" (short for roll over protection structures) to protect the drivers and any passengers in the event of an accident. Because human safety is involved the hollow structural tubing used must conform to stringent physical properties ensuring that neither strength nor formability is compromised. In 1997 IPSCO developed procedures permitting

the manufacture of light wall ROPS and work continues on heavier wall applications.

Process development activities were many and varied, a few of which are reviewed here.

A major effort was devoted to assistance in the start-up of the Montpelier Steelworks.

In collaboration with the University of Iowa, work continued on the development of computer models to aid in optimization of continuous casting practices in Regina and Montpelier.

Process development needs also involved IPSCO's participation in the American Iron and Steel Institute program for Advanced Process Control, which involves a variety of work including a project at the University of British Columbia on the development of a hot strip mill model.

In another area IPSCO continues its participation in Project Bessemer Inc., a consortium of Canadian steel companies which, together with the National Research Council of Canada, is exploring the feasibility of directly casting strip as thin as one sixteenth to one quarter of an inch.

IPSCO's Research and Development department carried out extensive testing to evaluate metallurgical practices used in the development of steel to be used in line pipe designed for high operating pressures.



Trade Matters

Except for Canada and the United States (which are referred to subsequently as "North America" although Mexico is not included) every major steel-producing bloc is a net exporter of steel. Students of economics may wonder why this is the case since North America, under usual currency valuations, is considered to be the lowest cost steel producing area.

The answer is complex.

First, most of the other steel producing areas are not easily served by North American products because of a variety of non-tariff barriers, be they domestic control of steel distribution channels, national preferences, or a co-operative government bureaucracy which uses subtle ways to discourage imports.

Second, steel producers in these blocs have installed capacity in excess of domestic needs and seem willing to sell at cash break-even prices on the export market to keep their facilities full.

Third, the benefit of running full out is amplified when local laws make decreasing the size of the workforce during economic downturns illegal.

Fourth, some countries maintain a blatant "two price" policy whereby domestic consumers pay a substantial premium over the price their domestic suppliers offer on the export market. A case in point is Korea where, following the recent currency devaluations, steel prices for exporting industries were dropped while domestic users saw no price relief.

Fifth, countries such as those which were part of the former USSR use steel exports as a major source of hard currency and the concept of "cost" does not enter into their thinking when promoting exports.

It is no wonder then that the managements of North American steel companies keep a wary eye on imports and the subject is covered in virtually every steel analyst's report on the state of the industry.

In 1997 domestic North American producers enjoyed record or near record sales yet the profitability of the industry overall did not compare favourably with other major industries. In tonnage terms the apparent steel consumption is estimated to have been just over 147 million tons for the U.S. and Canada combined of which almost 29 million tons were imports from



other steel producing regions of the world.

While much of the steel so imported was needed to fuel the booming domestic economies, much of it was priced below normal domestic offerings and the price erosion this caused undoubtedly had a negative impact on producers' returns. At least one company claims to have been driven into red ink because of imports.

While offshore imports to North America averaged one ton in five or 20 percent they varied significantly by product group.

Bars, angles, rolled beams, and rod (collectively "long products" in industry jargon) came in at

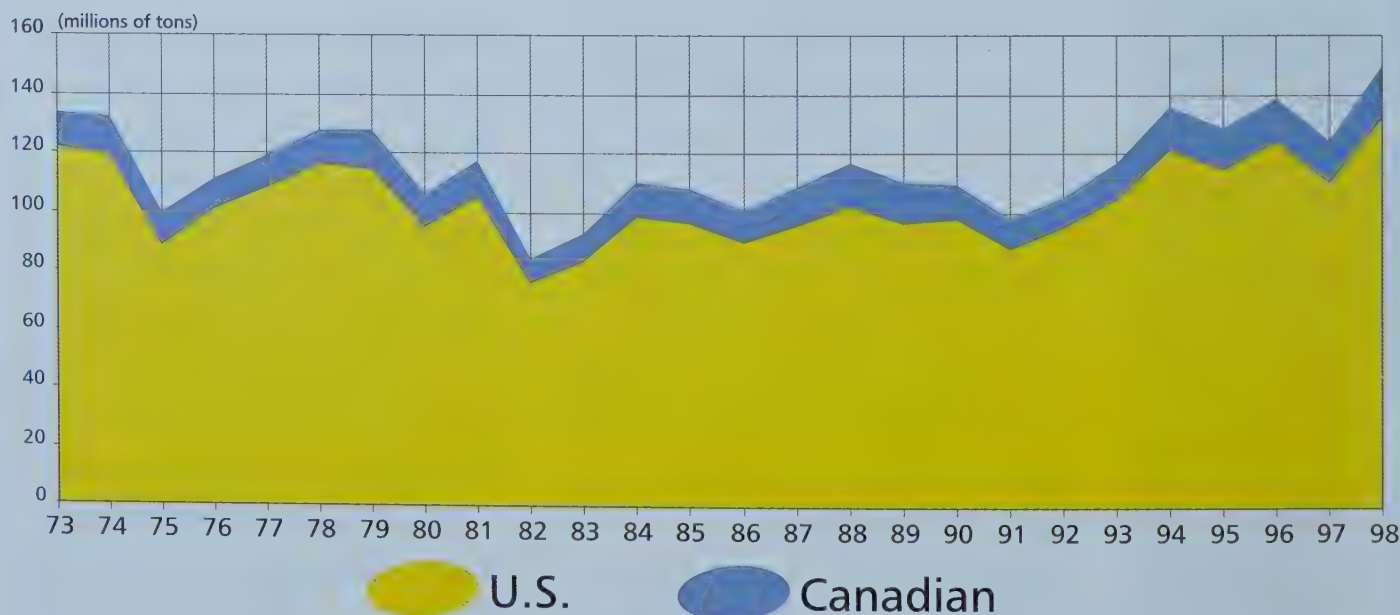
11 percent of apparent consumption. Cold rolled steel and galvanized imports accounted for just under 14 percent of consumption. But in absolute terms imports of these products jumped an estimated 43 and 30 percent respectively, increasing their share of the total market.

Discrete plate (plate in cut form) imports comprised about 18.5 percent of the North American market as compared to 22 percent a year earlier. In tonnage terms this constituted a 20 percent decrease and was directly attributable to the impact of an unfair trade case launched in November 1996 which had the effect of tempering imports from the countries involved following an early-year surge, even though

Combined Canadian and U.S. steel consumption rose to over 147 million tons.



Domestic Steel Consumption



the case was not successfully concluded until December 1997. In the end plate imports from Russia, Ukraine, and China were subjected to both volumetric quotas and price restraints and imports from South Africa were subjected to price restraint only under a series of suspension agreements.

In the case, the U.S. International Trade Commission found the offending countries were selling plate in the U.S. at prices ranging from 15 percent to 70 percent below their home market prices or costs. A similar case taken out in Canada was also successful although imports did not drop as quickly.

An unfortunate "loophole" in international trade law permits a country found guilty of dumping a particular product line to switch into an allied product line and begin dumping all over again. This was the case with hot rolled coil in plate and strip thicknesses where imports surged in absolute terms by 36 percent bringing their North American market share to 21 percent as compared to 17 percent a year earlier. Much of the increase was from Russia which had been a major culprit in the plate import case. Both

American and Canadian producers have indicated they are studying possible trade cases in a series of products, including hot rolled coil.

Pipe and tube is another area where imports surged, reaching almost 23 percent of North American consumption as compared to 19 percent in 1996. In absolute terms tonnage was up 37 percent while shipments from domestic producers rose only 12 percent.

The above analysis can be viewed as being heartening or disheartening. If one is a pessimist one will decry the continuing direct and indirect loss of jobs due to imports (estimated to be 60,000 and perhaps more). On the other hand optimists feel that if all imports were displaced there would be room for some 20 companies with tonnage shipments equal to those of IPSCO in 1997! IPSCO believes that the answer is probably somewhere in between. Both Canada and the United States will have to vigilantly enforce their respective trade laws and do everything possible to remove the reasons which make it much easier for imports to get into their respective countries than for them to export steel to others. Given a reasonable stance by these

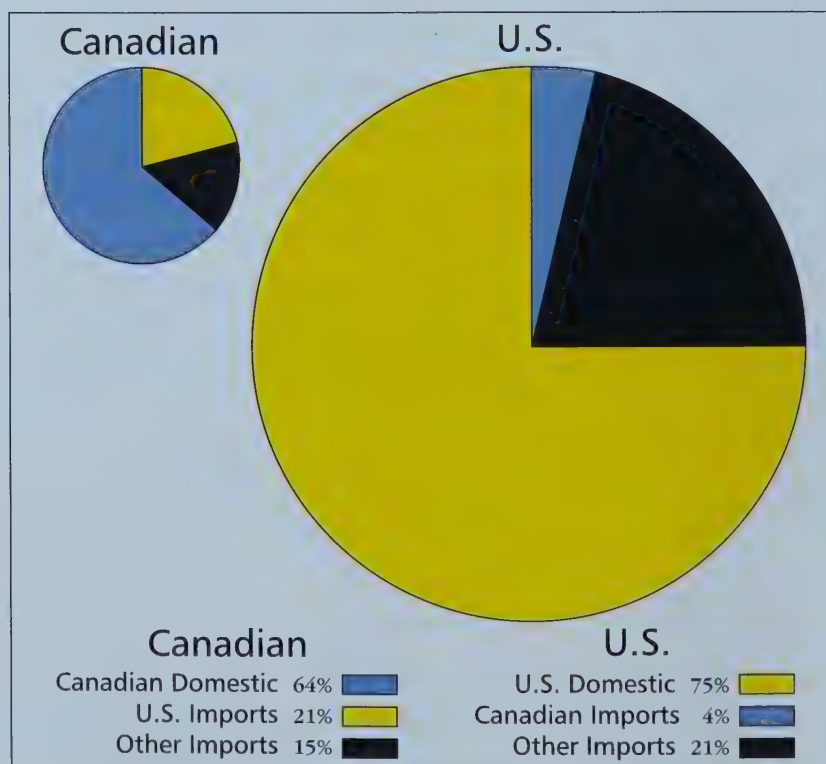
governments, the North American steel industry would enjoy an expanding future which will be particularly exploited by those who can build new facilities employing both modern technology and management techniques.

A positive note from IPSCO's perspective is that its major product lines of plate, hot rolled coil, and tubular products are all ones where imports are high, thus giving it a bigger target to shoot at as it endeavours to expand its sales.

Readers will note that IPSCO has treated Canada and the U.S. as one integrated steel-producing bloc in the foregoing discussion. A brief comment is in order with respect to trade between the two countries since the coming into force of the Canada-U.S. Free Trade Agreement in 1989. In the five years preceding the Free Trade Agreement average annual imports to the U.S. from Canada were 3.2 million tons while shipments to Canada from the U.S. amounted to just under 700,000 tons. In percentage terms Canadian exports amounted to just over three percent of the American market while U.S. steel comprised six percent of the Canadian market. By 1997 Canadian shipments to the U.S. had grown to an estimated

4.8 million tons or almost four percent of the American market while U.S. tonnage to Canada rose to 3.6 million tons or 21 percent of the Canadian market. In absolute terms the "winners" have been American producers both in tonnage and market share gained. This should have been expected as Canadian tariffs had presented a higher barrier to American products than vice-versa. But although Canadian growth in terms of southward shipments has been less than the opposite flow there has also been a positive gain which was not insubstantial. As far as Canada and the U.S. are now concerned the facts seem indeed to support the existence of an integrated steel market.

Steel Markets



Investments in New and Upgraded Facilities

Investments and capital spending in facilities reached a record \$231 million with just about 45 percent comprising expenditures on IPSCO's new Montpelier, Iowa mini-mill. The balance went towards such major items as the purchase of a hitherto leased slab caster and melt shop facilities at Regina, purchase of an interest in a Canadian scrap collecting and processing business, a major expansion of the company's U.S. based small diameter pipe facilities, an extensive modernization of the large diameter pipe mills in Regina, enhancements to IPSCO's coil processing facilities, and myriad smaller projects.

In April IPSCO completed the first part of an acquisition which will lead in 2002 to the full ownership of a series of steel scrap collecting and processing facilities in western Canada and certain contiguous U.S. states. The first tranche comprised a 51 percent ownership in the General Scrap Partnership to be initially operated in conjunction with its previous owners. The facilities will provide the Regina Steelworks with more than 50 percent of its scrap needs.

The Regina Steelworks slab caster and some associated equipment

had been used by IPSCO under a multi-year operating lease. In July the company invoked a clause in the contract, purchasing the equipment for approximately \$53 million.

In Regina IPSCO had traditionally operated a coil processing facility as an adjunct to its rolling mill. In 1997 the company installed a newly acquired cut-to-length line in a separate building, freshly expanded and upgraded for the purpose.

The St. Paul, Minnesota, coil processing facility was modified to expand its product line into higher value-added items.

A long-term building lease and initial spending was committed to a state-of-the-art temper mill and cut-to-length operation to be located in Toronto, Ontario. The facility will process purchased hot rolled coil supplemented by IPSCO production when required. The nature of the equipment in Toronto is such that it should produce material of excellent flatness even when the starting material is less than flat.

Including the company's Surrey, British Columbia operation, and its subsidiaries' operations in

◀ The U.S. market is eight times larger than the Canadian market. In 1997 imports from the U.S. represented 21% of the Canadian market while Canadian exports to the U.S. represented only about 4% of the U.S. market.

Regina, Saskatchewan and St. Paul, Minnesota, IPSCO's coil processing locations will nearly girdle the continent when the Toronto facility begins operation in late 1998, serving major steel-using locations in the Pacific northwest of the United States, western Canada, the U.S. Midwest, and Ontario's "Golden Horseshoe".

IPSCO currently operates two small diameter pipe mills in the United States, producing standard pipe, hollow structural tubing, line pipe, and oil and gas well casing of up to 8 5/8 inches in diameter. Modifications at each of the Geneva, Nebraska and Camanche, Iowa operations will permit combined pipe throughput of 345,000 tons per annum at extremely low costs. Construction and equipment modifications were completed in 1997. A photo of a portion of the finishing operations that formed part of these modifications appears on the cover of this report. Late in the year the company announced the construction of a new ultra high speed, low production cost pipe mill of 300,000 tons per annum capacity to be located at Blytheville, Arkansas, and completed in the first half of 1999.

In response to the trend toward the construction of higher operating pressure gas transmission lines IPSCO commenced a \$28 million project during the year to upgrade both its Regina rolling mill and its three spiral pipe mills. When completed early in 1998 IPSCO will be able to efficiently produce high strength large diameter pipe in wall thicknesses of up to .685 inches.

Numerous miscellaneous smaller capital projects were undertaken, primarily to enhance the finishing capacity of the company's small diameter pipe mills in Canada and to both improve working conditions and improve production costs in the Regina Steelworks.

Modifications to
IPSCO Regina's spiral
mill will give the
facility the capability
to produce higher
grade and thicker
wall pipe at increased
rates of production.





In its 1996 annual report IPSCO stated that it expected the delivery of its Montpelier, Iowa Steelworks, as an operating whole, during the second quarter of 1997.

Unfortunately the general contractor, supplying the facility on a turnkey basis, once again erred substantially in its predictions. It was not until 3 November that the mini-mill passed its preliminary acceptance tests and operations came under IPSCO's full control. The contract is a fixed price arrangement with the supplier having also been committed to a fixed schedule. IPSCO has already collected the costs provided in the contract for the first twenty weeks delay and negotiations are underway with respect to cost recovery for the balance. In the meantime a startup and commissioning period of

approximately six months is underway during which time project interest and commissioning costs will be capitalized as provided for in the original project cost estimate.

To date the startup has been devoid of costly surprises and the quality of product shipped has been excellent. The mini-mill will specialize in the production of discrete plate with the product moving "in line" from caster to the point of shipping. Typically the elapsed time from the point when a scrap bucket begins to be charged into the electric furnace to the point when the finished product is loaded for shipment, should be about three hours. The plant also has the ability to produce hot rolled coils up to 96 inches wide. Initial capacity is 1,250,000 annual tons.

Survey work is carried out as a first step in a modification carried out during 1997 at IPSCO's Edmonton facility.

IPSCO People

Record sales normally mean not only more profit for the shareholders but also more jobs for IPSCO people. Average employment did indeed increase, rising 13 percent from 1,508 persons in 1996 to 1,710.

IPSCO people also benefitted financially as a result of the company's enhanced profitability. Excluding management performance bonuses, which are also related to profitability, a total \$9.1 million in profit-sharing awards were distributed in the form of cash or IPSCO shares. Virtually every IPSCO employee is eligible for some form of profit sharing and there were in fact 2,380 "memberships" in the company's various plans, since some are eligible to participate in more than one plan.

IPSCO employees at most locations, with the exception of United Steelworkers of America members who have a separate arrangement, are eligible to join a voluntary profit sharing and savings plan. Under the plan individuals make contributions of between \$200 and \$1,000 annually through payroll deductions. This amount is used by independent trustees to purchase IPSCO shares on the

open market on the member's behalf. At year-end a portion of the company's after-tax profit, in excess of a notional dividend pay out, is shared pro-rata among the plan participants based on their own contributions up to \$500. For individuals who contributed a minimum of \$500 in 1997 a total of 96 IPSCO shares comprised of 10 shares from their own contributions plus 86 shares in profit sharing were credited to their accounts. An employee who has made annual contributions of \$500 to the plan since its inception 13 years ago would see her or his contributions totalling \$6,500 swollen by the addition of profit-sharing awards and dividend investments such that she or he now would own 1,230 IPSCO shares with the market value of approximately \$72,500.

United Steelworkers members at IPSCO facilities in Regina, Edmonton, and Calgary belong to a separate plan which also involves profit sharing in the form of IPSCO shares. In 1997 those employees working 520 hours in each quarter received 70 IPSCO shares (approximate value of \$4,125).

Employees in either plan may sell all or part of their shares at any

time. When this report was under preparation the plan trustees were holding 277,250 shares on behalf of plan members, with a market value of \$15.4 million as of year end.

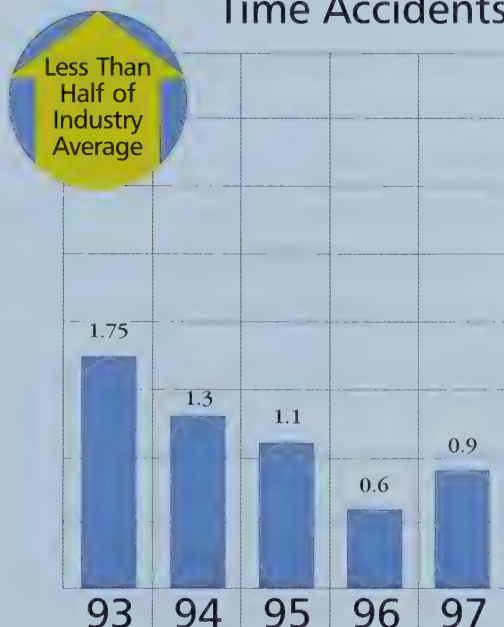
Dealing with liquid steel at temperatures of 1650 degrees Celsius, handling pipe bundles, steel coils, and slabs as heavy as 70 tons, as well as operating equipment processing steel strip at speeds up to 25 miles per hour are not inherently "safe" jobs. Consequently the issue of employee safety is one of paramount interest and concern for IPSCO management. In 1997 the frequency of lost time accidents was .9 per 100 man years worked. Although higher

than the .6 recorded a year earlier the figure is believed to be under half the industry average for Canada and the United States. Despite the higher incidence of accidents, the severity, as measured by average days off the job, was lessened from 1996.

IPSCO encourages all its employees to continue to improve their skills through courses and seminars taken at their initiative on personal time. Under the plan tuition reimbursement is made available for successful studies and during the year employees were credited for 72 programs and courses, of which 50 were undertaken by factory workers.

The company also sponsored extensive on-the-job training for Canadian employees through its membership in the Canadian Steel Trade and Employment Congress (CSTEC), a joint venture of Canada's steel companies and the United Steelworkers of America. Under CSTEC's arrangement with Canada's federal government a joint management/union committee allocates funds to approved training programs on a shared basis, with the companies picking up the balance of the cost. In 1997 IPSCO's Canadian employee training expenditures

Frequency of Lost Time Accidents





amounted to nearly \$1.6 million of which 88 percent was paid by the company and 12 percent funded by the government through CSTECH. Training costs for United States employees, reflecting the high level of initial training required for the Montpelier Mill, were much higher at U.S. \$4.8 million of which 83 percent was paid by the company and 17 percent was funded under various training incentive programs.

Subsequent to the closure of IPSCO subsidiary Western Steel Limited's Calgary Steelworks in 1995 a company/union joint adjustment project was formed, coordinated by CSTECH. Spending in 1997 in support of the training of displaced workers amounted to \$77,000 bringing the total received through CSTECH since 1995 to

\$663,000. The program has had impressive results. Out of 176 individuals eligible for adjustment training 93 registered for specific courses with some 80 persons now employed in such diverse new occupations as flight instructor, clergyman, accountant, photographer, and truck driver.

Now in its forty-second year of existence IPSCO is seeing an ever increasing number of long-service employees and retirees. In 1997, 34 IPSCO people reached 25 years of service, swelling the ranks of active members of the Quarter Century Club to 242. There are an additional 102 retiree members of the Club.

IPSCO expresses its best wishes to the 36 employees who retired in 1997.

The company regrets to report the deaths for non-work related reasons of Brian Schmidt and Tony Lieb of the Regina Steelworks and extends sympathy to their families and friends.

During the year three collective labour agreements were successfully negotiated.

On 4 February an agreement was ratified covering United Steelworkers of America employees in Regina, Calgary and Edmonton. The contract has an expiry date of 31 July 2002 but implementation was delayed until the Province of Saskatchewan enacted legislation to ensure that the agreement would remain in force for the full term of five and a half years. The agreement provides for two percent and three percent increases in August of 2000 and 2001. A \$1,000 cash bonus was paid to each employee affected following ratification with similar awards scheduled for January 1998 and 1999. Employees who meet a predetermined level of hours worked in the 12-month period preceding these payments will receive the full award with pro-rata amounts for those with fewer hours worked. Various improvements were made with respect to pensions. A letter of

understanding was also signed that reinforced the Company's investment commitments to Canadian operations and the agreement to share such information with the union on an annual basis.

A three-year collective agreement with unionized employees at the Paper Cal Steel facility in St. Paul, Minnesota was negotiated in February. Expiring in March of 2000, it provides for wage increases totalling U.S. \$1.20 per hour over the three-year period, enhanced profit sharing opportunities, and a modest increase in shift premiums.

A new collective agreement for Ironworker employees at the Red Deer, Alberta pipe mill was concluded in December. The new contract expires on 31 December 2001. It provides for a wage increase of 75 cents per hour effective 1 January 1999, enhanced profit sharing and pension opportunities, and \$1,000 lump sum bonuses to be paid in January 1998 and 2000 to employees working a pre-determined number of hours in the preceding 12 months.

IPSCO Steel Inc. personnel from the Montpelier Steelworks assisted the local community by filling sandbags for diking the Mississippi River during peak spring flows.

Officers and Directors

Bill Sharp, IPSCO's founding President and Chief Executive Officer, aged 87, has been retired for many years. As indicated in last year's report, it was decided to name the road entering the Montpelier Steelworks "Bill Sharp Boulevard". Visiting the operation in October, today's board members

took part in a dedication ceremony led by Board Chairman John Beddome, who said in part:

"Today as we are present at this new Montpelier Works, which is a significant piece of IPSCO's future, we also want to take the opportunity to commemorate IPSCO's past. This street leading up to the Works is to be named for



Bill Sharp, the founding President of IPSCO. Bill was an American, born in Kirbyville, Texas in 1910. He made his way to Canada and Regina, Saskatchewan via Vancouver, BC where he was in the cement business. ...

... Bill became involved in a ... proposal – a pipe plant that could be used to make pipe for transmission lines that were to be built to transport natural gas that was beginning to be produced in the province. As the pipe mill was being started it became evident that an economical steel source was needed so the pipe mill was closely followed by a steel mill. The steel mill was a greater challenge. The farm economy required a certain knowledge of welding which is a major part of pipe making. The chemistry of steel making was a completely new challenge for Saskatchewan farm boys. The challenge was also met.

The success of IPSCO today is a tribute to the vision of Bill Sharp, he lived up to his name – connected, straightforward and honourable – Bill was someone who could put things together and make them work. I believe that Bill may have

predicted that IPSCO would be one of the major mills in Canada but IPSCO expanding to the United States by building another steel mill here could only have been a dream: A dream now realized.

We are pleased to take this opportunity to congratulate Bill Sharp on his vision and his persistence in the face of significant challenge. We are naming this road after Bill Sharp because he was the first to provide a road map to a successful future for IPSCO. With the unveiling of this plaque I invite each of you to read the inscription which reads in part:

We salute Bill Sharp; a man ahead of his time; a man who has always lived up to his name.

Mario Dalla-Vicenza, Senior Vice President, Corporate Affairs, was elected a Director of the Canadian Chamber of Commerce and a member of its Executive Committee.

President Roger Phillips, who is a Chartered Physicist, was elected a Fellow of the Institute of Physics of the United Kingdom.

▼ John Beddome, Chairman of IPSCO Inc., addressed directors and officers gathered for the unveiling of the plaque saluting Bill Sharp Boulevard's namesake.



IPSCO as a Corporate Citizen

IPSCO continued in 1997 to ensure that it participated as a responsible corporate citizen in three main areas – community support and charitable giving, protection of the environment, and support for industry and business generally.

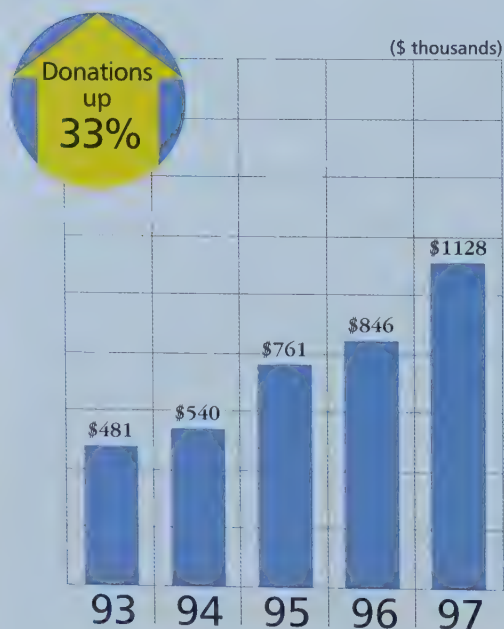
Total contributions to charitable and community support activities in the year amounted to \$1.1 million just slightly higher than 1.5 percent of IPSCO's average annual after-tax earnings over the three preceding years, which is the company's objective. IPSCO's donations cover myriad activities in both Canada and the U.S. with a certain bias toward local as opposed to national charitable causes. A few examples

of IPSCO's philanthropy in 1997 included a donation to the Muscatine, Iowa high school for a new greenhouse in support of its horticultural science program, support for the Canada Wide Science Fair for student projects, and the Habitat for Humanity for house construction for the disadvantaged in Regina.

As an electric furnace steel producer IPSCO's impact on the external environment is a relatively benign one. Huge "baghouses", akin to giant vacuum cleaners, filter plant exhaust ensuring that particulate matter escaping to the atmosphere is minimal. Water used in the production process is recycled internally with only a small fraction being discharged. Because much of IPSCO's water is used in the cooling of hot metal, evaporation losses are inevitable and are the reason for clouds of white water vapour (not to be confused with smoke) which can be seen rising from the steelworks, especially in winter. Solid waste such as material recovered from the baghouse filters is disposed of in government approved landfills.

Bill Neher of IPSCO
Regina donates his
time and expertise to
a Habitat for Humanity
build in Regina to
which the company
donated money.

Charitable Donations



More recently popularized "pollutants" are the so-called "greenhouse gases", claimed by



environmentalists and some scientists to be the cause of global warming. The principal greenhouse gas is carbon dioxide which, far from being a traditional pollutant, is the colourless gas which results from the burning of even such clean fuels as natural gas or, for that matter, is exhaled by every human being in every breath as the result of our bodies producing energy. As a user of already reduced steel scrap, electric furnace operators, even when emissions by their electricity suppliers are included, tend to produce about half the carbon dioxide per ton of production emitted by integrated steel producers. They, as a function of their production process, use carbon as a reducing element to

separate iron from the oxygen in iron ore, resulting in higher levels of carbon dioxide production. The entire Canadian steel industry produces only 2.5 percent of all greenhouse gas emissions in Canada.

By far the largest direct and indirect sources of these emissions are related to human needs – energy for heating our homes, offices, and factories in winter and cooling them in summer, for transportation, lighting and operating appliances, and equipment in our homes or at our places of work.

Despite the fact that IPSCO operations are relatively benign with respect to environmental

pollution the company and many others in industry in North America are continuously facing proposed new environmental laws and regulations which will result in little or no real gains for society, at costs we believe will have a negative effect on the economy as a whole. In this regard it is interesting to note a recent article in *Scientific American* written by two scientists, formerly with the United States Environmental Protection Agency, who claim that Americans are more likely to be exposed to environmental hazards today in their own homes because the external atmosphere has already been cleaned up so well.

For this reason, while continuously striving for enhanced energy efficiency in its plants, IPSCO has campaigned for a more rational, science based, economically justified approach to supposed climate changing emissions and has supported industry-wide efforts in both the U.S. and Canada designed to influence government policies in this direction. The recent Kyoto agreement will necessitate per capita reductions by 2010 or so in energy consumption of 27 percent in Canada and 25 percent in the United States as compared to 1997. There is no indication that

technological improvements will permit such reductions to be made without a drastic change in lifestyle and a reduced standard of living for every citizen.

(Shareholders should note that IPSCO's efforts in energy conservation have met with considerable success. It is estimated that the energy consumed in producing one ton of steel dropped 13 percent between 1990 and 1997.)

IPSCO has also been involved in the search for more sensible regulation in other environmental areas, primarily through its membership in the American Iron and Steel Institute and the Canadian Steel Producers Association. In addition IPSCO has started legal action to have portions of the Canadian Environmental Protection Act declared ultra vires. A recent Supreme Court of Canada ruling seemingly defined the parameters within which Canada's federal government can use its power to legislate in criminal matters with respect to the environment. IPSCO believes that current legislation does not meet this criteria in several areas, resulting in extra costs to the company.

The Saskatchewan Science Centre was one venue for the IPSCO visual and interactive displays which explain both the steel and pipemaking processes as well as the importance of steel in our communities today.



IPSCO spent \$9.5 million in 1997 on environmentally related non-routine and capital expenditures, excluding amounts spent for such purposes in its new Montpelier Steelworks. The latter included \$6.5 million in environmental control and pollution prevention equipment. IPSCO's expenditures are not aimed at just meeting current regulatory requirements but include proactive spending, an example of such being the removal of PCB transformers from IPSCO operations in Canada when not required by law.

IPSCO is not only a member but is active in programs of such steel industry organizations as the American Iron and Steel Institute,

the Canadian Steel Producers Association, the Steel Manufacturers Association, and the SteelAlliance. The latter group was formed to sponsor a U.S. and Canada-wide media campaign to promote steel as a modern, strong, and safe material. Shareholders will have undoubtedly seen television ads with the closing slogan "The New Steel. Feel the strength."

Beyond steel industry level associations IPSCO supports broader based industry groups in both the U.S. and Canada, in particular the Chamber of Commerce movement in both countries and the Business Council on National Issues in Canada. On a still broader basis IPSCO belongs to the Public Policy Forum, an organization established to foster modern professional management practices in the Canadian public service, the C.D. Howe Institute, which publishes a broad cross section of views on Canadian public policy matters, and supports the Canadian Policy Research Network which conducts research into specific public policy issues.

Outlook

Given the fact that steel is the material of choice for so many applications its consumption patterns are affected by myriad conditions. While this is the case for IPSCO's products the following three are the most important.

First, the state of the overall economy in the United States and Canada. Economic conditions translate into activity increases or decreases at the multitude of manufacturers who use such steel products as hot rolled coil, plate, hollow structurals, and standard pipe. Similarly the tempo of construction of all sorts is a major driver for the use of these products. As this report is being prepared there is no sign of abatement to the slow, steady non-inflationary growth experienced over the last few years. Generally speaking IPSCO customers have not been impacted by Asian imports.

Second, the level of oil and gas well drilling activity in both countries, but especially in Canada where IPSCO is a dominant supplier, impacts on the use of well casing, production tubing for oil and gas wells, and steel pipe used for gathering lines. Weak oil prices have caused some producers to announce cutbacks

in their drilling activity and mild weather may result in an earlier end to the winter drilling season. On the other side of the coin new outlets for Canadian natural gas in the form of expansions to major pipeline systems from Canada to the U.S. are expected to generate more gas well drilling as the year progresses.

Third, activity in the pipeline construction field. IPSCO has been working on a major order for large diameter pipe since the fall of 1997 which will be completed in May. Negotiations currently underway are expected to lead to business which will require new production to commence immediately following the completion of the current order. This will extend production well past year end, with the tonnage involved likely to surpass 300,000 tons. In addition IPSCO currently has good prospects to sell at least the same quantity of mid-size transmission pipe (produced on its 24-inch diameter Regina mill) as it did in 1997.

With the continuing ramp-up of the Montpelier Steelworks which produces primarily plate, currently in good demand, all indications are for a significant increase of shipments of product made from

IPSCO-produced steel as well as an increase in total sales. Any weakness in the volume of oil country tubular goods is expected to be at least offset by large diameter transmission pipe increases.

North American flat rolled steel prices have firmed lately, defying predictions of price weakness resulting from the Asian financial crisis. While anecdotal evidence suggests increased levels of Asian steel imports, they are, for the moment, not having a depressing effect, although some pundits suggest a weakening in the last half of 1998. Prices for oil country tubulars and large diameter transmission pipe should not be affected by the Asian situation.

A positive impact of the "Asian flu" has been a reduction in scrap and pig iron prices, both raw materials used by IPSCO.

Imports from elsewhere, especially the former communist bloc, continue to be of concern and will be monitored closely.

On balance the outlook for 1998 and as far as can be seen into 1999 is one of continuing profitability with its precise level dependent on the longer term

impact of the Asian financial crisis, if any, and the ongoing level of offshore imports. Into 1999 IPSCO's investments in Toronto and Blytheville, Arkansas should also have a positive impact.



Roger Phillips

President and Chief Executive Officer

27 February 1998

Corporate Information

Directors

John Beddome*
Calgary, Alberta
Independent Businessman
and Corporate Director

Burton Joyce*
Sioux City, Iowa
President and Chief
Executive Officer, Terra
Industries Inc.

Thomas Kierans*
Toronto, Ontario
President and Chief
Executive Officer, C.D.
Howe Institute

Harold MacKay, Q.C.**
Regina, Saskatchewan
Partner, MacPherson Leslie
& Tyerman

Allan Olson**
Edmonton, Alberta
President, First Industries
Corporation

Roger Phillips*
Regina, Saskatchewan
President and Chief
Executive Officer,
IPSCO Inc.

Arthur Price*
Calgary, Alberta
President and Chief
Executive Officer, Axia
Multimedia Corporation

Richard Sim**
Milwaukee, Wisconsin
President and Chief
Executive Officer,
Applied Power, Inc.

Kim Thorson, Q.C.**
Weyburn, Saskatchewan
Barrister & Solicitor

Murray Wallace**
London, Ontario
President, Avco Financial
Services Canada Limited

William Woodward**
Calgary, Alberta
Director, Reed Stenhouse
Companies

John Zaozirny, Q.C.*
Calgary, Alberta
Counsel, McCarthy Tetrault

* Members of the
Management Resources and
Compensation Committee

** Members of the Audit
Committee

Officers

John Beddome
Calgary, Alberta
Chairman of the Board

Roger Phillips
Regina, Saskatchewan
President and Chief
Executive Officer

Charles Backman
Regina, Saskatchewan
Senior Vice President and
Chief Administrative and
Engineering Officer

Mario Dalla-Vicenza
Regina, Saskatchewan
Senior Vice President
Corporate Affairs

Peter MacPhail
Regina, Saskatchewan
Vice President and Chief
Technical Officer

Joseph Russo
Bettendorf, Iowa
Vice President and General
Manager, U.S. Steel Mill
Products

Robert Rzonca
Phoenix, Arizona
Senior Vice President and
Chief Personnel Officer

Charles Sanida
Regina, Saskatchewan
Vice President and General
Manager, Canadian Steel
Mill Products

David Sutherland
Regina, Saskatchewan
Vice President and General
Manager, Raw Materials and
Coil Processing

Edwin Tiefenbach
Regina, Saskatchewan
Vice President and Chief
Financial Officer

John Tulloch
Regina, Saskatchewan
Vice President and General
Manager, Tubular Products

Robert Eisner
Regina, Saskatchewan
Treasurer

John Comrie, Q.C.
Regina, Saskatchewan
Secretary

Douglas Ballou
Regina, Saskatchewan
Assistant Secretary

Anne Parker
Regina, Saskatchewan
Assistant Secretary

Auditors

Ernst & Young

Listings

The Toronto Stock
Exchange
The Alberta Stock Exchange
The New York Stock
Exchange

Registrars and Transfer Agents

Montreal Trust Company
The Bank of New York

Stock Symbol

IPS

For further information
regarding the Company
contact:

Anne Parker, Asst. Secretary,
P.O. Box 1670, Regina,
Saskatchewan S4P 3C7

(306) 924-7700

e-mail: aparker@ipsco.com

Six Year Summary

IPSCO

Inc.

1997

ANNUAL

REPORT

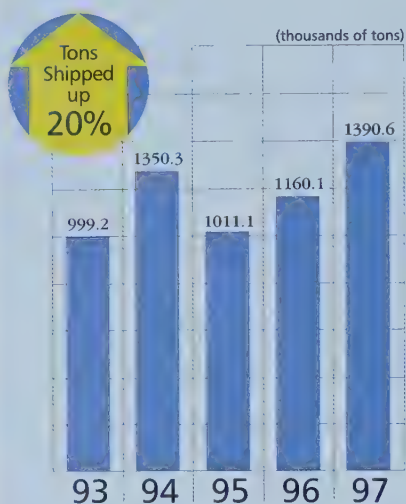
Year ended 31 December		1997	1996	1995	1994	1993	1992
Operations	Coil and Plate Tons Produced	1,058.9	969.4	932.1	978.7	839.4	724.6
	Finished Tons Shipped	1,390.6	1,160.1	1,011.1	1,350.3	999.2	804.3
	Sales Per Ton*	\$ 738	\$ 694	\$ 699	\$ 628	\$ 574	\$ 597
	Less: Cost excluding interest and income taxes*	604	599	596	565	531	560
	Operating Profit Per Ton*	\$ 134	\$ 95	\$ 103	\$ 63	\$ 43	\$ 37
	Average Number of Employees*	1,710	1,508	1,438	1,760	1,671	1,538
Statement of Earnings	Sales	\$1,025.6	\$ 804.9	\$ 706.3	\$ 847.9	\$ 573.2	\$ 480.4
	Less: Cost of Sales**	809.6	661.9	560.1	725.4	504.8	433.6
	Interest on Long-Term Debt	8.9	2.0	7.5	16.7	4.7	5.6
	Amortization	19.2	19.2	19.8	16.4	16.8	15.6
	Income Before Income Taxes	187.9	121.8	118.9	89.4	46.9	25.6
	Less: Income Taxes	55.7	38.5	37.2	31.7	18.2	10.1
	Net Income	\$ 132.2	\$ 83.3	\$ 81.7	\$ 57.7	\$ 28.7	\$ 15.5
Statement of Changes in Cash Position	Cash Flow from Operating Activities						
	From Earnings	\$ 134.6	\$ 95.3	\$ 98.1	\$ 75.5	\$ 46.1	\$ 27.2
	From Operating Working Capital	(60.1)	(41.1)	(3.9)	58.6	(78.0)	7.6
	Total Dollars	\$ 74.5	\$ 54.2	\$ 94.2	\$ 134.1	\$ (31.9)	\$ 34.8
Financial Position at Year End	Cash Capital Expenditures	\$ 244.5	\$ 118.2	\$ 237.8	\$ 174.6	\$ 40.0	\$ 22.4
	Current Assets	\$ 622.5	\$ 529.6	\$ 373.5	\$ 341.8	\$ 556.9	\$ 248.3
	Less: Current Liabilities	264.2	177.5	148.1	182.7	127.9	82.3
	Working Capital	358.3	352.1	225.4	159.1	429.0	166.0
	Capital and Other Long-Term Assets	1,024.7	874.3	833.6	892.7	281.1	257.1
	Total Investment	1,383.0	1,226.4	1,059.0	1,051.8	710.1	423.1
	Less: Long-Term Debt	418.0	385.6	286.3	340.8	58.0	57.8
	Deferred Items	31.3	49.5	53.2	48.7	53.0	44.5
	Shareholders' Equity	\$ 933.7	\$ 791.3	\$ 719.5	\$ 662.3	\$ 599.1	\$ 320.8
Financial Ratios	Return on Common Shareholders' Equity	15%	11%	12%	9%	6%	5%
	Long-Term Debt as a % of Total Capitalization	31%	33%	28%	34%	9%	15%
	Current Ratio	2.4:1	3.0:1	2.5:1	1.9:1	4.4:1	3.0:1
Shareholder Information	Net Income Per Common Share*	\$ 4.88	\$ 3.07	\$ 3.01	\$ 2.13	\$ 1.42	\$ 0.98
	Net Income Per Common Share* (Fully Diluted)	4.71	3.00	2.97	2.11	1.40	0.97
	Dividends Paid Per Common Share*	0.48	0.48	0.48	0.48	0.48	0.48
	Shareholders' Equity Per Common Share*	34.42	29.19	26.55	24.46	22.14	19.01
	Range of Market Value of Stock -High*	67.67	39.35	30.00	27.75	27.40	24.12
	-Low*	32.62	28.40	22.00	21.75	19.20	16.25
	Number of Common Shares	27.1	27.1	27.1	27.1	27.1	16.9

* Dollars and number of shares in millions and tons in thousands except as indicated by asterisk.

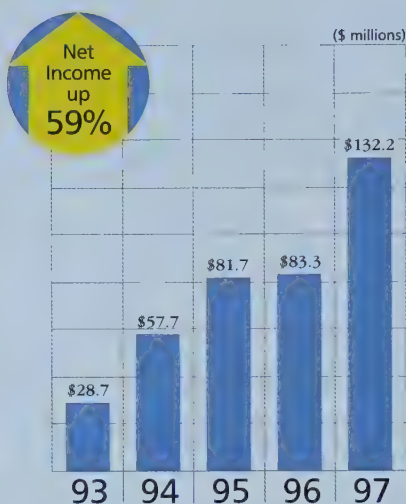
** Includes selling, research, and administration expenses.

Financial Charts

Tons Shipped



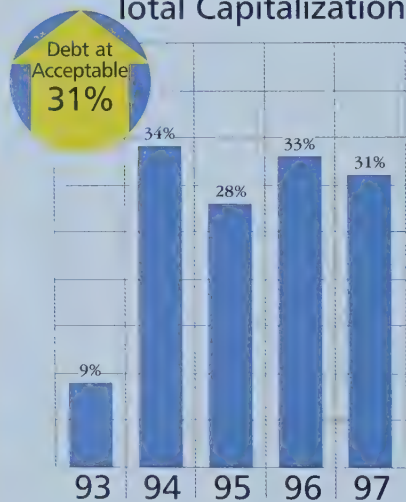
Net Income



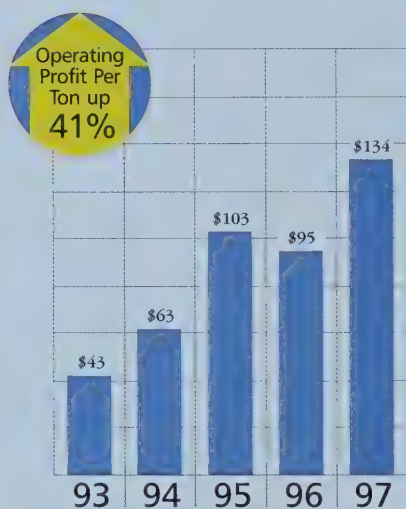
Earnings Per Share



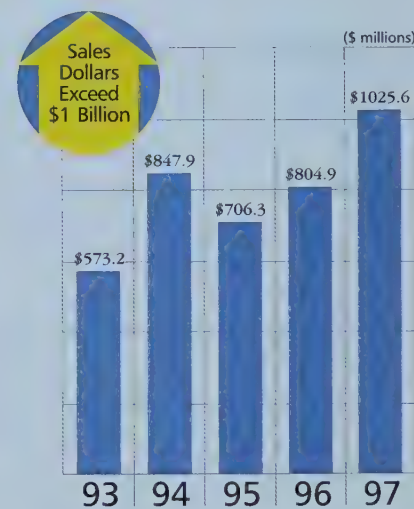
Debt as a Percentage of Total Capitalization



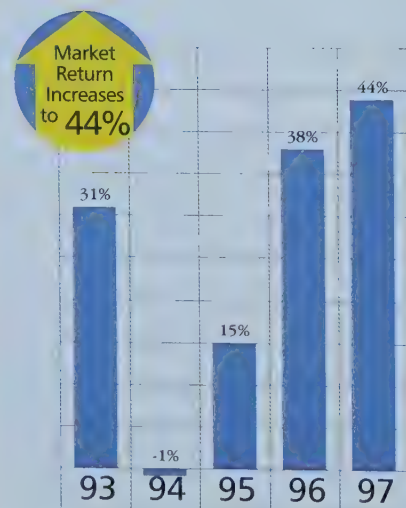
Operating Profit Per Ton



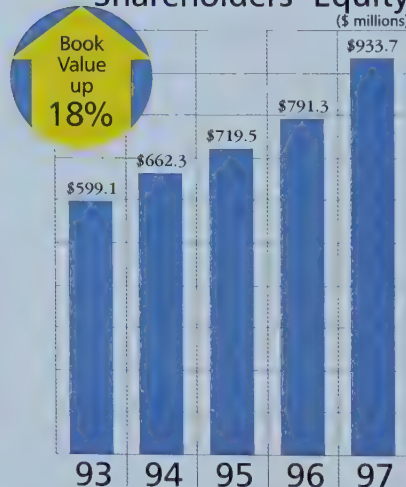
Sales Dollars



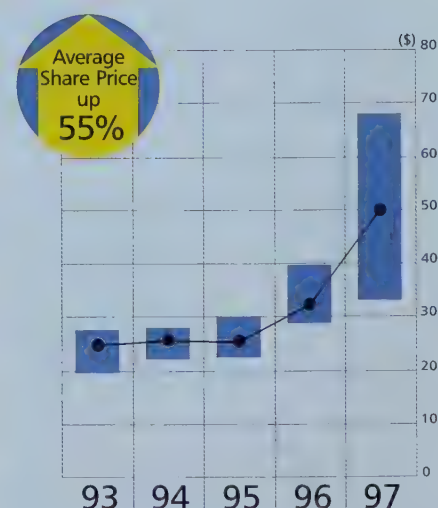
Market Return



Book Value of Shareholders' Equity



Average Share Prices



IPSCO Inc.

(A Canadian Corporation)

Head Office

P.O. Box 1670

Regina, Saskatchewan

S4P 3C7

Works

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P.O. Box 1670

Calgary, Alberta

7201 Ogdendale Rd.S.E.

Montpelier, Iowa

1770 Bill Sharp Blvd.

Camanche, Iowa

2011 - 7th Ave.

Paper Cal Steel Co.

P.O. Box 64303, St. Paul,
Minnesota

Edmonton, Alberta

6735 - 75th St.

Red Deer, Alberta

Central Park Road

Geneva, Nebraska

R.R. 2, Box 30A

Surrey, British Columbia

8250 - 130th St.

Toronto, Ont.

1051 Tapscott Road

Blytheville, Arkansas

5460 N. State Hwy 137

Principal Subsidiaries

IPSCO Saskatchewan Inc.

(A Canadian Corporation)

IPSCO Ontario Inc.

(A Canadian Corporation)

IPSCO Enterprises Inc.

(A Delaware Corporation)

IPSCO Tubulars Inc.

(A Delaware Corporation)

IPSCO Steel Inc.

(A Delaware Corporation)

Paper Cal Steel Co.

(A Delaware Corporation)

General Scrap Partnership

(51% owner as at 31 December 1997)

*On peut obtenir la version
française de ce rapport sur
demande écrite adressée à:*

IPSCO Inc. Communications

C.P. 1670

Regina (Saskatchewan) S4P 3C7

IPSCO Locations



Sales Phone Numbers

Tubular Products
Coil and Discrete Plate
Cut-To-Length Products

Canada

1-800-667-1616
1-800-663-0777
1-800-945-9772

United States

1-800-950-4772
1-800-340-5566
1-800-383-9031

1997

MANAGEMENT'S DISCUSSION & ANALYSIS
AND AUDITED FINANCIAL STATEMENTS

IPSCO INC.
1997

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

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The following commentary should be read in conjunction with the consolidated financial statements of the Company. Certain statements in this commentary constitute "forward-looking statements". (See "Note regarding Forward-Looking Statements" on page two of the Company's 1997 Annual Report).

GENERAL

IPSCO Inc. (the "Company" or "IPSCO") is an integrated producer of steel products which is its primary line of business and dominant industry segment.

Market estimates, consumption figures and other measures of economic and commercial activity (other than Company specific information) used in this report are based on an analysis of figures from a variety of external sources and should be interpreted only as broad indicators. All price changes discussed herein are calculated based on the currency of the relevant sales transaction.

In this document unless the context otherwise indicates, references to IPSCO or the Company include both IPSCO Inc., and its wholly owned or controlled subsidiaries.

RESULTS OF OPERATIONS

YEAR ENDED 31 DECEMBER 1997 COMPARED WITH YEARS ENDED 31 DECEMBER 1996 AND 31 DECEMBER 1995.

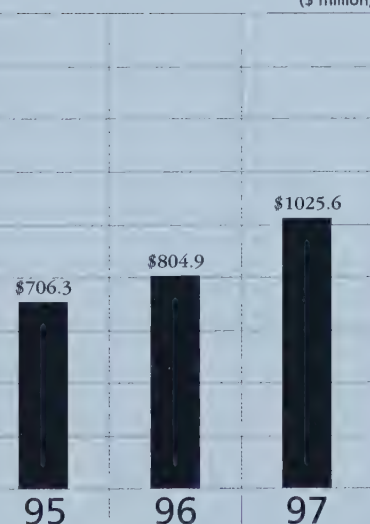
Sales

Summary

Sales increased by 27 percent to \$1.03 billion in 1997 after increasing by 14 percent to \$804.9 million in 1996 from \$706.3 million in 1995.

1997 COMPARED TO 1996

(\$ million)



In 1997 tonnage shipped at 1,390,600 tons and sales of over \$1 billion were a record in both volume and revenue. Tonnage was 20 percent higher than 1996 which, in turn, excluding bar products discontinued in 1995, was 20 percent higher than 1995.

Demand for IPSCO products exceeded once again the Company's internal steelmaking capability and price levels were adjusted to ensure that any sales could economically support the cost of steel purchases used by IPSCO's value-added manufacturing operations. The effect of such a pricing policy was to divert IPSCO's sales to geographic and product areas giving the best profits and thus year-to-year comparisons do not necessarily reflect demand changes but rather product mix adjustments serving to maximize the Company's rate of return.

While the American economy was more robust in overall terms, real economic growth in Canada exceeded that of the United States as Canada started to catch up somewhat with the U.S. This, combined with a boom in natural resources in Canada, saw IPSCO's tonnage sales rise 27 percent in Canada and just over three percent in the United States. Canadian customers accounted for 74 percent of IPSCO sales with the balance being purchased by American-based companies.

The average unit selling price for IPSCO increased some seven percent. While many products saw modest price improvement, downward price pressure was felt where IPSCO's value-added products competed against manufacturers who were highly dependent on imported steel and in garden variety steel mill products which are easily imported. Offsetting this import related pressure was a product mix which saw a greater proportion of higher priced items.

Steel Mill Products

Steel mill products include hot rolled coil and discrete plate. Shipments of 346,900 tons were 29 percent higher than the previous year. Both coil and discrete plate saw double digit increases. Canadian sales were bolstered by high demand for coil from third party tubular and coil processing operations which enjoyed Canada's energy boom. Plate shipments were impacted by a boost in U.S. transactions late in the year as the Montpelier Steelworks made its initial shipments. A combination of price increases and decreases throughout the year meant that on a full year-over-year comparison basis the average unit price advanced slightly more than two percent.

Tubular and Other Further Fabricated Products

Energy Related Tubulars

This group includes products used for both downhole and transmission applications in the oil and gas industry. Shipments at 638,700 tons were 29 percent higher than 1996. Oil country tubular goods (used as well casing and to channel oil and gas to the surface) and small diameter pipe (used to hook up wells to transmission systems) saw a 54 percent rise, large diameter spiral weld gas transmission pipe was down 17 percent while mid-range line pipe (16 to 24 inches in diameter) was almost unchanged.

IPSCO's growth in oil country tubulars and small diameter line pipe manifested itself in both Canada and the U.S. but Canada saw the lion's share. IPSCO's American sales of these products are currently constrained because its Iowa and Nebraska producing locations are relatively remote from the energy producing areas.

Although there was a flurry of announcements with respect to large diameter oil and gas transmission line projects, many of the resultant pipe orders were for post-1997 production. IPSCO was successful in attracting some 1997 business but it was concentrated mostly in the last third of the year.

Average unit selling prices of energy related tubulars advanced almost 10 percent on a year-to-year basis, reflecting strengthening across the board, but particularly in large diameter transmission pipe.

Fabricated Products

Comprising all IPSCO value-added products excluding energy tubulars, this group saw tonnage shipments of 405,000 tons, a two percent increase overall compared to 1996. While these shipments were historically strong for IPSCO, coming after the previous year's 23 percent increase, and thus 25 percent over 1995 levels, the Company did eschew less than optimal profitability items in the hollow structural and standard pipe areas in favour of energy tubular opportunities. Cut-to-length shipments were up nine percent while hollow structurals and standard pipe were down four and 13 percent respectively as compared to the year before.

Average unit selling prices for the group as a whole were up just over two percent on a year-over-year basis as low priced imports of steel feedstock used by competing tubular and cut-to-length producers resulted in downward price pressures.

1996 COMPARED TO 1995

In 1996 sales were 1,160,100 tons, 15 percent higher than 1995 on an absolute basis and 20 percent higher if 42,600 tons of reinforcing bar sales in 1995 from an operation that was shutdown in that year are excluded.

Geographically, a strong U.S. economy, impacting particularly positively on steel requirements of mid-west manufacturers, saw IPSCO's U.S. sales increase to 30 percent of IPSCO total tons, up from 27 percent a year earlier. More than three quarters of this tonnage was shipped from IPSCO's American plants. Canadian sales constituted virtually all of the other 70 percent, as offshore exports were minimal.

From a product category perspective energy related tubulars were up 31 percent in tonnage, and fabricated products including cut-to-length flat rolled, standard pipe, and hollow structurals, saw a 23 percent increase. Steel mill products, including hot rolled coil and discrete plate, were virtually unchanged.

IPSCO's sales exceeded its raw steel production capability, with purchased hot rolled coil and some cast slabs being used as supplements where procurement costs made it economically feasible. Generally speaking no orders were accepted which could not support the additional cost of purchased steel. This internally imposed price discipline meant that certain geographical or product areas were downplayed in favour of more profitable ones.

In terms of general price patterns the year was almost a mirror image of 1995 which saw early price strength erode quarter by quarter. In contrast, prices started firming early in 1996 and then, except for a few cases, rose to their highest level by the year-end. Exceptions to this rule were in commodity grade coil and plate and in some products manufactured from them. Weakening demand in the European Union and the need for hard currency by many eastern European countries saw low priced imports hit those portions of Canada and the United States readily accessible by ocean transport.

A higher value-added product mix, combined with the discipline of purchasing steel supplies from third parties, meant that IPSCO was less affected than certain other competitors by price pressures from imports. On a year-to-year comparison the average unit selling price was virtually unchanged but, more importantly, it was up just under six percent in the fourth quarter as compared to the previous final quarter.

Steel Mill Products

Steel mill products include hot rolled coil and discrete plate. Sales of 269,100 tons were almost unchanged from the previous year. Primarily because of better profit opportunities in other lines, coil sales were allowed to drop some nine percent but sales of discrete plate increased about 23 percent. On a full year-to-year comparison, the average unit selling price for this group improved by less than one percent.

Tubular and Other Further Fabricated Products

Energy Related Tubulars

This sector includes sales for both down-hole and transmission applications for oil and gas and amounted to 495,000 tons, up 31 percent from the previous year. Oil country tubular goods (used as well casings and to channel oil and gas to the surface) and small diameter line pipe (used to hook up wells to transmission systems) saw a 21 percent rise, large diameter spiral weld gas transmission pipe doubled, while mid-range line pipe (16 to 24 inches in diameter) grew 17 percent.

Particularly high levels of oil and gas well drilling in Canada, spurred by high energy prices, were the main driving force behind the higher sales of oil country tubulars and small diameter line pipe. In the U.S., where IPSCO's pipe making facilities are relatively distant from drilling areas, the Company concentrates on smaller volumes of product requiring special steel grades, which command higher prices.

Large diameter oil and gas transmission line projects were scarce in North America but the major ones were close to IPSCO's large diameter facilities, making it possible to increase sales over the previous year.

The average unit selling price for the group decreased by almost 5 percent, largely reflecting the impact of some large projects booked in late 1995, at a time of price weakness. Comparing fourth quarter to fourth quarter, prices rose on average just over seven percent.

Fabricated Products

This group includes all of IPSCO's sales of value-added products excluding energy tubulars.

Tonnage sales amounted to 396,000, a rise of 23 percent from the 322,600 tons sold in 1995. The higher sales level reflects both high demand from steel product users such as machinery and equipment manufacturers and in particular a strong farm implements manufacturing sector, and the wider product ranges available from IPSCO's recently modernized coil processing facilities in St. Paul, Minnesota, and Surrey, B.C. Cut-to-length products were up 29 percent, hollow structurals 24 percent, and standard pipe 11 percent. Increased standard pipe tonnage came largely in the United States where IPSCO is consciously emphasizing this product at its Camanche, Iowa, pipe mill.

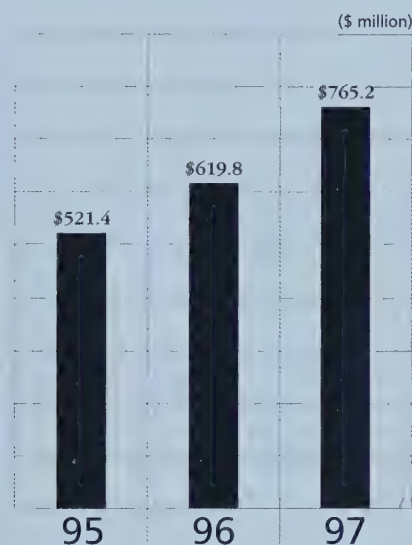
Average unit selling prices for this group were indirectly under pressure because of the availability to IPSCO's competitors of low priced imported feedstock, as well as some overcapacity in the industry. In consequence, prices were lower by just under four percent on a year-over-year basis, but were up almost four percent on a final quarter comparison basis.

Cost of Sales

Summary

Cost of sales increased by 23 percent to \$765.2 million in 1997 after increasing by 19 percent to \$619.8 million in 1996 from \$521.4 million in 1995.

1997 COMPARED TO 1996



The operating level of a particular IPSCO unit ultimately depends on economic factors such as overall demand and potential profitability. In the past, with demand being low, IPSCO manufactured all the steel it needed to serve both third party customers and its captive tubular products and coil processing facilities, except for a few size ranges and grades for which it was not equipped to produce. With demand exceeding internal steelmaking capability, steel production has been supplemented by steel purchased from other steel producers. But because of the high freight costs inherent in the location of some IPSCO plants relative to other steel producers the amount of purchased steel which can be used profitably is not unlimited.

In 1997 conditions were such that IPSCO could run its own steelmaking at virtually full capacity and also purchase some 475,000 tons of steel from third parties, up from 295,000 tons a year earlier.

Therefore the increase in cost of sales in 1997, though mainly the result of higher volume sold was also the result of a higher volume of steel purchased for further processing, offset by the effects discussed in the following paragraphs.

High equipment utilization often means high levels of efficiency and this was the general rule throughout the IPSCO group.

The cost of a ton of mill edge coil at the Regina Steelworks decreased by just over two percent.

Man hours per ton required to produce a ton of coil or discrete plate at the Regina Steelworks averaged .81, down from .85 a year earlier. The Company believes that given the age of the Regina Steelworks this figure is excellent and surpassed in the industry by only the newer vintage thin slab mini-mills.

Raw Materials

Excluding its U.S. steel facility, which has only recently been turned over by the general contractor, IPSCO consumed some \$270 million of raw materials and energy in 1997. These included iron and steel scrap, electricity, natural gas, alloy materials, carbon electrodes, refractories and lime, to a miscellany of other items.

IPSCO has in the past generally sourced these materials from others but recently has taken an ownership position in scrap collection and processing for a part of its needs. When a subsidiary, Western Steel Limited closed its small Calgary steel reinforcing bar facility in 1995 IPSCO formed a subsidiary, IPSCO Direct Inc., to collect some of the material which Western

Steel had been consuming, for forwarding to the Regina Steelworks. Subsequently, IPSCO entered into an agreement to purchase by 2002 the major scrap collector and processor that supplies the Regina steelmaking facilities from its scrap collection and processing operations in western Ontario, the prairie provinces, and the contiguous U.S. states. In April 1997 IPSCO took the first step in that process by becoming a 51 percent owner of the General Scrap Partnership.

Scrap processed through the captive operations, IPSCO Direct and General Scrap, accounted for 46 percent of IPSCO Regina's scrap needs in 1997.

The average cost of scrap consumed in both the Regina and Montpelier Steelworks decreased by a slight amount (less than 3/4 percent).

Steelmaking

Steel production at the Regina and Montpelier Steelworks combined amounted to 1,137,900 slab tons with Regina producing over one million tons on its own. In 1996 the only operating steelworks located in Regina, produced 1,004,200 slab tons.

Capacity utilization at the Regina Steelworks at 92 percent was lower than the previous year figure of 93 percent as, once again, operations were held down in part by power outages as the supplying utility experienced a rash of maintenance problems. The Montpelier Steelworks has only been under IPSCO's full control since 3 November and during its startup and commissioning phase utilization figures are not a good measure (slab output for the November-December period was about 25 percent of capacity). Under an early use agreement with the contractor IPSCO was able to sporadically produce some slabs over the June to October period. These were shipped primarily to Regina for rolling to finished product, replacing to some extent the steel production lost due to electrical outages.

Production of flat rolled steel in coiled and discrete plate form totalled 1,058,900 tons with slightly over one million tons coming from Regina, compared to 969,400 tons in the previous year, with the balance being produced in Montpelier from 3 November to year-end.

Tubular Production

IPSCO's Canadian small diameter pipe mills operated at record capacity levels so despite somewhat lower production figures than in 1996 for large diameter spiral pipe, and shutdowns in the U.S. for major capital improvements, a record 736,000 tons of tubular products were produced compared to 559,000 tons in 1996.

The Calgary, Red Deer and Edmonton, Alberta small diameter facilities saw utilization rates increase to 77 percent on a combined basis, from 52 percent in 1996, as demand for oil and gas well casing and tubing, and small diameter line pipe used for oil and gas collection and connections to the larger diameter transmission lines, was at an historic high. To assist in meeting the demand, finishing capacity for casing in Canada was doubled. Edmonton Works reached the highest operating level for small diameter pipe since 1973.

The large diameter spiral pipe mills in Regina were held back by lack of demand until August but after that time worked full out, save for shutdown periods needed for equipment upgrades. Average utilization rose to 33 percent from 32 percent in 1996. The 16 to 24-inch diameter ERW mill in Regina saw sporadic utilization in 1997 at 27 percent, down slightly from 30 percent in 1996.

Utilization of the Company's U.S. pipe mills was restrained by shutdowns for major upgrades at both the Geneva, Nebraska and Camanche, Iowa locations in the first half of the year and subsequently by normal startup learning curves. Average utilization for the year was unchanged at 33 percent. When fully on stream the combined capacity of these two mills will be some 345,000 tons.

Cost control was in evidence as the cost of converting one ton of steel coil to one ton of pipe increased an average of less than one percent over 1996. Man hours per ton required to produce one ton of finished product from one ton of steel fell almost five percent from 2.61 a year earlier to 2.49.

Coil Processing

IPSCO's coil processing facilities in Regina; Surrey, British Columbia; and St. Paul, Minnesota primarily convert steel coil from both the Company's own production and from that purchased from other steel manufacturers to "cut-to-length" steel, typically in thicknesses from one sixteenth of an inch to one half of an inch and in lengths of up to 62 feet. In 1997 these facilities handled a total of 279,000 tons, an increase of 24,000 tons from the previous year, despite the distraction of major facility upgrades taking place in Regina and St. Paul.

1996 COMPARED TO 1995

The operating level of a particular IPSCO unit ultimately depends on economic factors such as overall demand and potential profitability. In some years, when demand is low, IPSCO, except for size ranges and grades it does not produce, manufactures all the steel it needs to serve both third party customers and its captive tubular products and coil processing facilities. At other times the demand can exceed internal steelmaking capability and in these circumstances steel production is supplemented by purchases from other steel producers. Because of the high freight costs inherent in the location of some IPSCO plants, however, the quantity of purchased steel which can generate a profit is a limiting factor.

In 1996 conditions were such that IPSCO could run its own steelmaking at virtually full capacity and also purchase some 295,000 tons of steel from third parties, up from 81,600 tons a year earlier.

Therefore the increase in cost of sales in 1996, though mainly the result of higher volume sold, was also the result of a higher volume of steel purchased for further processing as well as the effects discussed in the following paragraphs.

The cost per ton of mill edge hot rolled coil fell one percent ("mill edge" coil is steel produced directly off the rolling mill in coiled form without further processing). The cost of raw materials going into a ton of such coil was virtually unchanged as scrap costs dropped only to be offset by a comparable rise in alloys and fluxes. Therefore internal operating efficiencies were the major contributor to the overall cost improvement.

The number of hours worked per ton of product shipped fell to a record low 2.4 from 2.8 a year earlier. While some of the year-over-year improvement reflects the reduced manpower requirement that is inherent in the use of a larger quantity of purchased steel it nevertheless was well below the 2.7 man hours per ton shipped in 1994 when substantial quantities of purchased steel were also consumed. The number of man hours per ton to produce a ton of coil being the same at .85 in both years, the balance of the year-over-year improvement in hours worked per ton shipped in 1996 was due to efficiencies in IPSCO's coil processing and fabricating facilities.

Raw Materials

Iron and steel scrap, IPSCO's major raw material, varies in price with supply and demand. Typically not only domestic but offshore factors come into play as Canada and the U.S. combined are net scrap exporters. Average scrap prices declined somewhat despite the coming on stream of new electric furnace steel operations which are heavy scrap consumers. However lower demand from offshore markets and an abundance of scrap substitutes at good prices, particularly pig iron, acted as price dampeners on scrap. The unit cost of prepared scrap charged to production in IPSCO's Regina Steelworks fell four percent.

Carbon electrodes, which channel the electricity to create the arc in electric steelmaking furnaces, are eventually consumed in the process. With increased demand due to the high level of mini-mill activity in North America the price of electrodes increased by eight percent on a year-over-year basis.

The average cost of electricity consumed at all Company locations was virtually unchanged.

Steelmaking

Slab production at the Regina Steelworks amounted to 1,004,200 tons for the year, 3½ percent ahead of 1995, but two percent below the record year of 1994. Capacity utilization at 93 percent exceeded the previous year's figure of 88 percent and was constrained, not by market conditions, but by, among other causes, a higher degree of interruptions in the supply of electricity to the Company's two electric steelmaking furnaces (under a long-term contract IPSCO's electricity supply in Regina is subject to up to 150 hours of interruption a year, in return for a lower price). These interruptions, termed "peak shaving", are more likely to occur in very cold weather and re-starting production under such conditions can eat up significant potential production time after power has been restored.

Tubular Production

Increased demand across the gamut of tubular products offered for sale by IPSCO translated into higher capacity utilization for the Company's Canadian pipe production facilities, which operated at an average level of 41 percent compared to 33 percent for the previous year. Nevertheless this was lower than experienced in the early 1990s when there was a higher demand for large diameter pipe.

Utilization of IPSCO's large diameter spiral mills rose to 32 percent from 23 percent in 1995 while that of the electric resistant weld mills rose to 47 percent from 41 percent.

IPSCO's American pipe mills saw a slight increase in utilization, reaching 33 percent compared to 31 percent for the previous year.

The cost of pipe "conversion", the difference between the cost of a ton of finished pipe and a ton of steel strip used in its manufacture continued to improve, with particularly significant gains at the U.S. locations.

Coil Processing

Nineteen ninety-six saw the first full year of operation following modernizations of IPSCO coil processing facilities at St. Paul, Minnesota and Surrey, British Columbia. The enhanced capability of these operations resulted in record production levels because of both improved throughput capability and an expanded product range. This experience has prompted the preparation of a plan to replace the Regina cut-to-length operation with a similar stand-alone unit to serve the Canadian prairie provinces.

Selling, Research and Administration Expenses



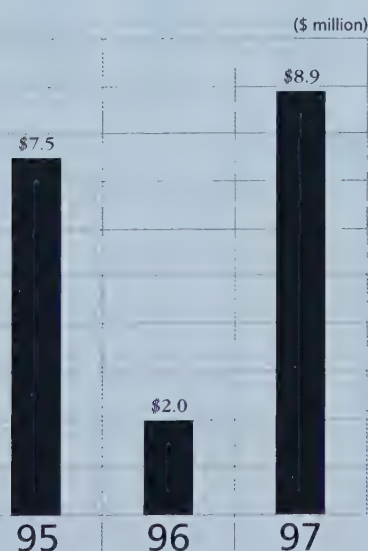
Selling, research and administration expenses increased by 6 percent to \$44.5 million in 1997 after increasing by 9 percent to \$42.1 million in 1996 from \$38.7 million in 1995.

The largest portion of the increase in 1997 was due to the increased level of sales by the Company plus general inflation in the cost elements within this group of expenditures. Research and development expenses and consulting fees were also higher.

In 1996, the largest portion of the increase was due to general inflation in the cost elements within this group of expenditures. Capital taxes, bad debts, legal and audit and research and development expenses were also higher.

In addition in both years public relations spending was higher mainly caused by the higher level of corporate philanthropic spending that is driven by better results.

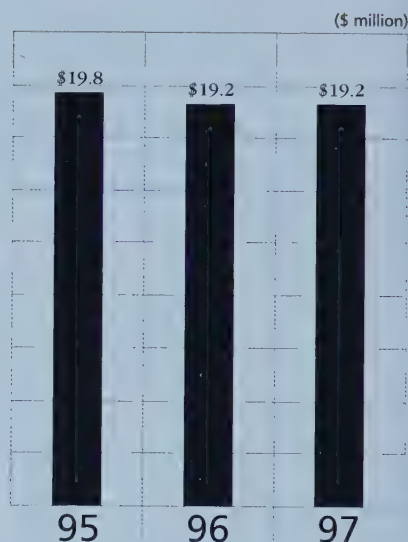
Interest on Long-Term Debt



Interest on long-term debt increased by 342 percent (\$6.9 million) in 1997 from 1996 because there was a full year's interest on the \$100 million 10-year unsecured debentures issued in October 1996 and additional interest resulting from the U.S. \$14.7 million 10-year Solid Waste Disposal Revenue Bonds issued in June 1997. In 1996 interest expense decreased by 73 percent from 1995 because more interest was capitalized in 1996 than 1995 and because of the repayment of \$45 million of debentures in 1995.

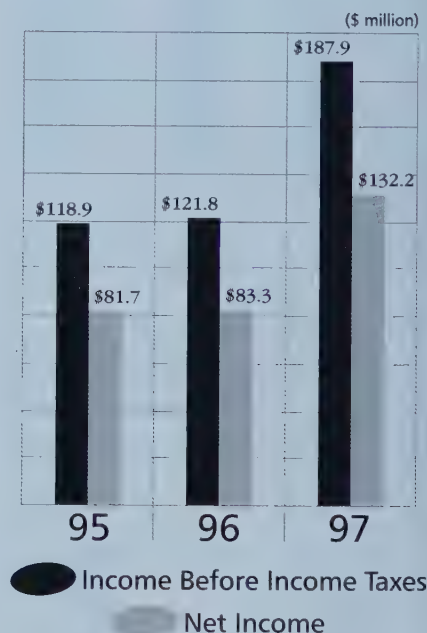
Amortization of Capital Assets

Amortization of capital assets remained at \$19.2 million in 1997 after having declined by three percent to reach that level in 1996.



Income Before Income Taxes and Net Income

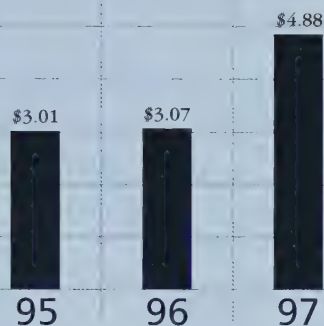
As a result of the changes described in previous sections, income before income taxes rose by 54 percent to \$187.9 million in 1997 after having risen by two percent to \$121.8 million in 1996 from \$118.9 million in 1995. Consequently, net income rose by 59 percent to \$132.2 million in 1997 after having risen by two percent to \$83.3 million in 1996 from \$81.7 million in 1995.



Earnings Per Common Share

(\$)

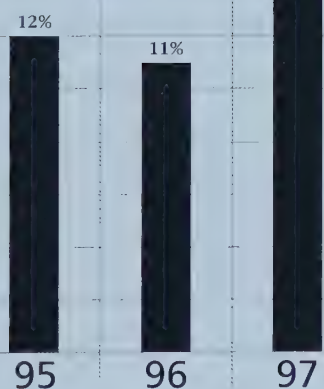
Earnings per common share rose 59 percent to \$4.88 in 1997 after having risen two percent to \$3.07 in 1996 from \$3.01 in 1995.



Return on Common Shareholders' Equity

(%)

The return on common shareholders' equity rose to 15 percent in 1997 after having declined to 11 percent in 1996 from 12 percent in 1995. These rates of return should be considered in the context that assets representing 71 percent of equity in 1997, 59 percent of equity in 1996 and 51 percent of equity in 1995 represented construction work in progress on the United States steel mill that were therefore unable to earn any significant return. (Also, see Analysis of IPSCO's Total Capitalization described on page 16.)



Quarterly Results

Results by quarter for 1997, 1996 and 1995 were as follows:

	1997	1996	1995
Tons Shipped			
	(thousands of tons)		
1st Quarter	319.0	243.7	297.5
2nd Quarter	304.4	276.9	251.0
3rd Quarter	355.3	319.0	221.8
4th Quarter	<u>411.9</u>	<u>320.5</u>	<u>240.8</u>
Total	<u>1,390.6</u>	<u>1,160.1</u>	<u>1,011.1</u>

Sales			
	(millions of dollars)		
1st Quarter	\$ 228.6	\$ 168.1	\$ 198.4
2nd Quarter	224.5	183.8	182.0
3rd Quarter	274.1	220.2	158.9
4th Quarter	<u>298.4</u>	<u>232.8</u>	<u>167.0</u>
Total	<u>\$ 1,025.6</u>	<u>\$ 804.9</u>	<u>\$ 706.3</u>

Net Income			
	(millions of dollars)		
1st Quarter	\$ 30.5	\$ 16.7	\$ 23.1
2nd Quarter	30.2	16.8	21.7
3rd Quarter	33.4	23.2	17.9
4th Quarter	<u>38.1</u>	<u>26.6</u>	<u>19.0</u>
Total	<u>\$ 132.2</u>	<u>\$ 83.3</u>	<u>\$ 81.7</u>

Basic Earnings Per Share			
1st Quarter	\$ 1.13	\$ 0.62	\$ 0.85
2nd Quarter	1.11	0.62	0.81
3rd Quarter	1.23	0.85	0.66
4th Quarter	<u>1.41</u>	<u>0.98</u>	<u>0.69</u>
Total	<u>\$ 4.88</u>	<u>\$ 3.07</u>	<u>\$ 3.01</u>

Fully Diluted Earnings Per Share

1st Quarter	\$ 1.09	\$ 0.60	\$ 0.84
2nd Quarter	1.08	0.61	0.79
3rd Quarter	1.19	0.83	0.66
4th Quarter	<u>1.35</u>	<u>0.96</u>	<u>0.68</u>
Total	<u>\$ 4.71</u>	<u>\$ 3.00</u>	<u>\$ 2.97</u>

Basic Earnings Per Share - Trailing 12 Months

1st Quarter	\$ 3.58	\$ 2.78	\$ 2.50
2nd Quarter	\$ 4.07	\$ 2.59	\$ 2.96
3rd Quarter	\$ 4.45	\$ 2.78	\$ 3.09
4th Quarter	\$ 4.88	\$ 3.07	\$ 3.01

Fully Diluted Earnings Per Share - Trailing 12 Months

1st Quarter	\$ 3.49	\$ 2.73	\$ 2.47
2nd Quarter	\$ 3.96	\$ 2.55	\$ 2.92
3rd Quarter	\$ 4.32	\$ 2.72	\$ 3.05
4th Quarter	\$ 4.71	\$ 3.00	\$ 2.97

Analysis of IPSCO's Total Capitalization

The annualized rate of return on common shareholders' equity was 15 percent in the first quarter, 14 percent in the second quarter, 15 percent in the third quarter and 17 percent in the fourth quarter. For the year, the return on equity increased to 15 percent from 11 percent in 1996. This level of return is substantially higher than the inflation rate which was just over 1.5 percent in Canada and just over 2 percent in the United States.

In 1997 IPSCO issued U.S. \$14.7 million of 6.0 percent Solid Waste Disposal Revenue Bonds and in 1996 it issued \$100 million of 10-year, 7.8 percent unsecured debentures. This caused total long-term debt to increase to \$418 million in 1997, from \$385.6 million in 1996, and \$286.3 million in 1995.

The return on equity in 1997, 1996 and 1995 is a weighted average of differing returns by category of investment that deserves more elaboration. During the latter part of 1993 and the early part of 1994, two equity issues and a U.S. \$200 million private placement of debt were undertaken to provide the funding for the new steel mill in the United States. The proceeds from these financings were invested in interest-bearing securities until the funds were needed to finance the construction of the mill and the working capital that would be required for it. As a result, during 1997, 1996 and 1995 two broad categories of investment existed; the first being the investment in the operating business, and the second being the investment in the United States mill. The second category is made up of two components:

- the direct investment in the United States mill, which, because the mill is not yet fully operational, is not generating any return; and,
- the money that is destined to complete the new mill and fund the balance of its working capital requirements which is held in interest-bearing securities, the after-tax returns from which are much lower than the returns being generated from the operating business.

The low after-tax return from this second category of investment has had the effect of averaging down the higher return that is being achieved in IPSCO's operating business in 1997, 1996 and 1995. The following analysis illustrates this point.

The average total capitalization of IPSCO and the after-tax return on total capitalization for IPSCO in 1997, 1996 and 1995 is as follows:

	Average Total Capitalization		
	1997	1996	1995
	(millions of dollars)		
Debt	\$ 402	\$ 336	\$ 314
Equity	<u>862</u>	<u>755</u>	<u>691</u>
Total	<u>\$ 1,264</u>	<u>\$ 1,091</u>	<u>\$ 1,005</u>

	After Tax Return and After Tax Cost on Average Total Capitalization		
	1997	1996	1995
	(millions of dollars)		
Debt - Cost	\$ 5.5	\$ 1.2	\$ 4.6
Equity - Return	<u>132.2</u>	<u>83.3</u>	<u>81.7</u>
Total	<u>\$ 137.7</u>	<u>\$ 84.5</u>	<u>\$ 86.3</u>

	(percentage)		
	1997	1996	1995
Debt - Cost	1%	1%	2%
Equity - Return	<u>15</u>	<u>11</u>	<u>12</u>
Total	<u>11%</u>	<u>8%</u>	<u>9%</u>

By major investment category this breaks down as follows:

	Average Investment By Major Category		
	1997	1996	1995
	(millions of dollars)		
Total Investment	\$ 1,264	\$ 1,091	\$ 1,005
United States Mill*	<u>674</u>	<u>628</u>	<u>624</u>
Operating Business	<u>\$ 590</u>	<u>\$ 463</u>	<u>\$ 381</u>

	Approximate After Tax Return By Major Category		
	1997	1996	1995
	(millions of dollars)		
Total Investment	\$ 137.7	\$ 84.5	\$ 86.3
United States Mill	<u>14.7</u>	<u>16.0</u>	<u>21.9</u>
Operating Business	<u>\$ 123.0</u>	<u>\$ 68.5</u>	<u>\$ 64.4</u>
	(percentage)		
Percent Return on Total Investment	11%	8%	9%
United States Mill	<u>2</u>	<u>3</u>	<u>3</u>
Operating Business	<u>21%</u>	<u>15%</u>	<u>17%</u>

Therefore, based on this analysis, the return on investment employed in IPSCO's operating business increased to approximately 21 percent in 1997 after having decreased to 15 percent in 1996 from 17 percent in 1995.

* Includes long and short-term securities that have been set aside to fund the mill's construction and its working capital requirements.

SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

IPSCO, a Canadian company, uses Canadian dollars as the basis of measurement and follows Canadian GAAP in reporting financial results. The differences in the reported results that would have resulted from using United States as opposed to Canadian GAAP are summarized in note 20 to the 1997 financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Changes in Cash Position

As regards cash inflows, during 1997 working capital provided by operations was \$134.6 million and non-cash operating working capital increased by \$60.1 million which resulted in a net of \$74.5 million of cash being generated from operating activities. Higher sales levels plus the building of raw material and supply inventories for the startup of the new steel mill in the United States caused the increase in non-cash operating working capital. A total of \$19.8 million in cash was raised through the issuance of U.S. \$14.7 million of Solid Waste Disposal Revenue Bonds. In addition, \$.5 million was raised from shares issued pursuant to the share option plan and the cash effect of notionally translating foreign subsidiaries to Canadian dollars was \$6.8 million.

As regards cash outflows, dividends of \$13.0 million were paid out, \$1.5 million of long-term debt was repaid, and \$244.5 million was expended on capital assets and investments of which \$92.5 million was funded from maturing long-term securities.

As a result, during 1997 IPSCO's cash position decreased by \$64.9 million to \$161.8 million at 31 December.

Cash used for capital assets and investment expenditures totalled \$244.5 million with expenditures on the Company's new mini-mill in Montpelier, Iowa, amounting to \$116.0 million.

The balance went towards such major items as the purchase of a hitherto leased slab caster and melt shop facilities at Regina, purchase of an interest in a Canadian scrap collecting and processing business, a major expansion of the Company's U.S. based small diameter pipe facilities, an extensive modernization of the large diameter pipe mills in Regina, enhancements to IPSCO's coil processing facilities, and myriad smaller projects.

In April 1997 IPSCO completed the first part of an acquisition which will lead in 2002 to the full ownership of a series of steel scrap collecting and processing facilities in western Canada and certain contiguous U.S. states. The first tranche comprised a 51 percent ownership in the General Scrap Partnership to be initially operated in conjunction with its previous owners. The facilities should provide the Regina Steelworks with more than 50 percent of its scrap needs.

The Regina Steelworks slab caster and associated equipment had been used by IPSCO under a multi-year operating lease. In July 1997 the Company invoked a clause in the contract, purchasing the equipment for approximately \$53 million.

In Regina IPSCO had traditionally operated a coil processing facility as an adjunct to its rolling mill. In 1997 the Company installed a newly acquired 150,000 ton annual capacity cut-to-length line in a separate building, freshly expanded and upgraded for the purpose.

The St. Paul, Minnesota, coil processing facility was modified to expand its product line into higher value-added items.

Expenditures on a major upgrading and expansion of the Camanche, Iowa, and Geneva, Nebraska pipeworks were completed to bring the total annual capacity of IPSCO's American pipe operations to 345,000 tons. Additionally major expenditures were made on the start of a modernization of the Company's Regina large diameter pipe mills.

During the year IPSCO announced two major projects which are expected to strengthen the Company's value-added sector and enhance its long-term ability to use either IPSCO-manufactured or purchased steel as profit opportunities dictate. These were a \$25 million state-of-the-art coil processing facility in Toronto, Ontario, with an ultimate capacity of 300,000 tons per annum and a U.S. \$25 million ultra high speed low production cost small diameter pipe mill in Blytheville, Arkansas, also of 300,000 tons per annum capacity. Major spending will take place in 1998 with startups of the facilities planned for late 1998 and early 1999, respectively.

United States Mill

In September 1993, the Company announced that it would be proceeding with the development of a new mini-mill in the United States.

In its 1996 annual report IPSCO stated that it expected the delivery of its Montpelier, Iowa Steelworks, as an operating whole, during the second quarter of 1997. Unfortunately the general contractor, supplying the facility on a turnkey basis, once again erred substantially in its predictions. It was not until 3 November that the mini-mill passed its preliminary acceptance tests and operations came under IPSCO's full control. The contract is a fixed price arrangement with the supplier having also been committed to a fixed schedule. IPSCO has already had the benefit of the cost reduction provided for in the contract for the first twenty weeks delay and negotiations are underway with respect to cost recovery for the balance. In the meantime a startup and commissioning period of approximately six months is underway during which time project interest and commissioning costs will be capitalized as provided for in the original project cost estimate. These commissioning costs will continue to be capitalized to May 1998 or capitalization may be discontinued earlier should 50 percent of capacity or breakeven operation take place first. To date the startup has been devoid of costly surprises and the quality of product shipped has been excellent.

Capital Structure

IPSCO strives to maintain a strong balance sheet and a flexible capital structure aimed at achieving consistent shareholder returns from sustained growth.

The Company believes that the principal indicators of its credit worthiness are its debt to total capitalization percentage, its level of interest coverage, and the degree to which covenants in its existing lending agreements may affect its future ability to access debt markets.

Covenants with respect to IPSCO's lending agreements require the Company to maintain, at all times, a minimum book value of shareholders' equity of \$666 million plus 50 percent of net income earned after 31 December 1997 and a minimum current asset to current liability ratio of one to one. With respect to these covenants, the Company currently exceeds the required minimum by over 40 percent in the case of shareholders' equity and by approximately 140 percent in the case of the ratio of current assets to current liabilities.

To issue new long-term debt, the percentage that the Company's long-term debt is to the sum of total long-term debt plus shareholders' equity (Total Capitalization) cannot exceed 45 immediately after the new debt has been issued. The Company's long-term debt to Total Capitalization percentage at the end of 1997 decreased to 31 from 33 at the end of 1996. This means that at the end of 1997 the Company could have incurred an additional \$345 million in long-term debt and still have been able to meet this requirement.

Even though there are no interest coverage tests relating to IPSCO's long-term debt, the number of times that the Company's earnings before interest and taxes can cover its interest on long-term debt (Interest Coverage) is an important indication of its ability to issue additional long-term debt.

Interest on long-term debt charged to earnings is described on page 11. Interest incurred, capitalized and charged to earnings in 1997, 1996, and 1995 are as follows:

	1997	1996	1995
	(millions of dollars)		
Incurred	\$ 30.0	\$ 23.0	\$ 25.4
Capitalized	<u>21.1</u>	<u>21.0</u>	<u>17.9</u>
Charged to earnings	<u>\$ 8.9</u>	<u>\$ 2.0</u>	<u>\$ 7.5</u>

Consequently, IPSCO's interest coverage increased to 6.6 times in 1997, from 5.4 times in 1996 on an "interest incurred" basis; whereas, it decreased to 22.2 times, from 61.7 times, on an "interest charged to earnings" basis.

Liquidity

In the Company's view the principal indicators of IPSCO's liquidity are its cash position, the accounts receivable that can be sold through its existing securitization agreement, the amount remaining available to be drawn on its bank line of credit and the ratio of its current assets to its current liabilities.

The Company has a securitization agreement with a major Canadian bank whereby it can sell up to \$50 million of accounts receivable. At 31 December 1997 no accounts receivable had been sold.

Early in 1997 IPSCO's bank line was renegotiated with the existing consortium of five Canadian, American, and European banks. The line was increased by 25 percent to \$250 million with 70 percent of the line committed to December 2001. The remaining 30 percent is subject to annual renewal. Lending rates were reduced and certain covenants were either reduced or eliminated entirely. The Company's line of credit can be drawn at prime rates or less, in either Canadian or United States funds, subject to maintaining the same current assets to current liability ratio and long-term debt to total capitalization percentages that are required to raise further long-term debt. At 31 December 1997 no amount was drawn on this line.

By the end of 1997 IPSCO's cash position decreased by \$64.9 million to \$161.8 million due primarily to expenditures for capital assets and, consequently, the ratio of its current assets to its current liabilities decreased to 2.4 to 1. Comparable numbers for 1996 were \$226.7 million and 3.0 to 1.

At the beginning of 1998 the estimated cost to complete capital programs in progress is \$109.9 million of which \$17.4 million is committed. In addition the balance of working capital requirements for the United States mill, estimated to be U.S. \$25 million, will have to be funded and \$1.6 million of IPSCO's long-term debt will have to be repaid in 1998.

Assuming continuing profitability IPSCO can finance these expenditures and the recently approved higher level of dividends from its cash position, and cash generated from operating activities.

From time to time IPSCO makes use of interest rate swaps and foreign currency contracts to manage the Company's interest rate and foreign exchange risks. At the end of 1997 the Company did not have any such contracts outstanding.

Inflation

The company believes that inflation had no material impact on its cost of sales or net income in 1997, 1996 or 1995.

BUSINESS RISKS AND UNCERTAINTIES

Risk and Uncertainties

In the Company's opinion, weakness in the Canadian or United States economies could result in a lessening of demand for steel products. In addition, North American interest rates, the level of drilling in the Canadian energy industry, exchange rates, and the level of demand outside of North America for steel products are some of the other factors that can be expected to impact upon the demand for the Company's products. The level of drilling in the energy industry tends to be driven by the market price for oil and natural gas.

In 1997 domestic North American producers enjoyed record or near record sales yet the profitability of the industry overall did not compare favourably with other major industries. In tonnage terms the apparent steel consumption is estimated to have been just over 147 million tons for the U.S. and Canada combined, of which almost 29 million tons were imports from other steel producing regions of the world.

On the supply side, the level of steel imports and the additional production from North American steel facilities may well be important factors over the next several years. The high level of imports that are continuing to be sold in the United States and Canada are not expected to be willingly withdrawn when the steel cycle hits a downturn. This could cause prices to drop. In addition to the Company's new United States mill which commenced commissioning in the fourth quarter of 1997, there are a number of competitors that have announced, are proceeding with, or have brought into production, facility modernizations or expansions in the United States and Canada including new "mini-mill" facilities.

In terms of general price patterns, realized prices in effect at the beginning of 1997 remained generally in effect or marginally improved for the balance of the year. Offshore imports to the U.S. and Canada in 1997 averaged almost 20 percent of apparent steel consumption as a result of the fact that most other countries in major trading blocs are net exporters of steel. Trade actions on plate that were commenced in late 1996 were concluded with the named countries found to have been dumping plate in both the U.S. and Canada. Imports of plate in 1997 decreased. As plate imports dropped, hot rolled coil imports rose. Both American and Canadian producers have indicated they are studying possible trade cases respecting a series of products, including hot rolled coil.

IPSCO's Montpelier, Iowa Steelworks will provide IPSCO with an enhanced opportunity to provide steel products to its United States customers. With the start-up of the mill IPSCO will be faced with the usual issues and risks associated with the startup of a major greenfield steel plant as the Company attempts to demonstrate that the plant can be operated in a sustained and cost effective basis with equipment, as installed. The mill was taken over from the contractor in its entirety on 3 November 1997. The startup and commissioning phase is estimated to be concluded during the first half of 1998. As the startup and commissioning phase is completed and commercial operations begin, satisfactory market penetration will have to be accomplished. IPSCO has not previously operated a steel manufacturing plant in the United States, although it has for several years operated steel fabrication and processing facilities. Where considered appropriate, IPSCO has entered into long-term contractual arrangements with suppliers of essential raw materials for the new mill.

Environmental laws and regulations are rapidly changing, and the enforcement practices of regulatory agencies are becoming more stringent. The Company monitors and evaluates the state of its environmental compliance on an ongoing basis and continues to discuss environmental issues as they arise with regulatory authorities, as well as to undertake remediation activities where they are required. During 1997 capital spending on programs aimed at environmental controls and avoiding potential environmental hazards amounted to \$9.5 million at IPSCO's fully operational facilities in both Canada and the United States. In addition some \$6.5 million of the spending on the new U.S. mill was for environmental equipment controls. Substantial costs are also incurred annually in the operation of environmental programs.

Impact of the Year 2000 on the Company's Computer Systems and Devices

The problem surrounding the Year 2000 results from the fact that some computer programs have been written using two digits rather than four to define the applicable year. Any of the Company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or incorrect calculations causing disruptions of operations, including among other things, a temporary inability to process transactions or engage in similar normal activities.

Assessments have been completed on the commercial systems with plant floor systems presently being evaluated. Based on the reviews carried out to date, the Company has determined that it will be required to modify or replace portions of its software or hardware so that its computers will properly utilize dates beyond 31 December 1999.

The Company has initiated formal communications with all of its significant suppliers and large customers to determine the extent to which the Company is exposed to those third parties' failure to remedy their own Year 2000 issue. The Company plans to complete the Year 2000 project by mid 1999.

Total cost of the Year 2000 project has not been determined. Costs will be capitalized or expensed dependent on the nature of the item.

OUTLOOK

Given the fact that steel is the material of choice for so many applications its consumption patterns are affected by myriad conditions. While this is also the case for IPSCO's products the following three are the most important.

First, the state of the overall economy in the United States and Canada. Economic conditions translate into activity increases or decreases at the multitude of manufacturers who use such steel products as hot rolled coil, plate, hollow structurals, and standard pipe. Similarly the tempo of construction of all sorts is a major driver for the use of these products. As this report is being prepared there is no sign of abatement to the slow, steady non-inflationary growth experienced over the last few years. Generally speaking IPSCO customers do not appear to have been impacted by Asian imports.

Second, the level of oil and gas well drilling activity in both countries, but especially in Canada where IPSCO is a dominant supplier, impacts on the use of well casing, production tubing for oil and gas wells, and steel pipe used for gathering lines. Weak oil prices have caused some producers to announce cutbacks in their drilling activity and mild weather may result in an earlier end to the winter drilling season. On the other side of the coin new outlets for Canadian natural gas in the form of expansions to major pipeline systems from Canada to the U.S. are expected to generate more gas well drilling as the year progresses.

Third, activity in the pipeline construction field. IPSCO has been working on a major order for large diameter pipe since the fall of 1997 which should be completed in May. Negotiations currently underway are expected to lead to business which will require new production to commence immediately following the completion of the current order. This will extend production well past year end, with the tonnage involved likely to surpass 300,000 tons. In addition IPSCO currently has good prospects to sell at least the same quantity of mid-size transmission pipe (produced on its 24-inch diameter Regina mill) as it did in 1997.

With the continuing ramp-up of the Montpelier Steelworks which produces primarily plate, currently in good demand, all indications are for a significant increase of shipments of product made from IPSCO-produced steel as well as an increase in total sales. Any weakness in the volume of oil country tubular goods is expected to be at least offset by large diameter transmission pipe increases.

North American flat rolled steel prices have firmed lately, defying predictions of price weakness resulting from the Asian financial crisis. While anecdotal evidence suggests increased levels of Asian steel imports, they are, for the moment, not having a depressing effect, although some pundits suggest a weakening in the last half of 1998. Prices for oil country tubulars and large diameter transmission pipe should not be affected by the Asian situation.

A positive impact of the "Asian flu" has been a reduction in scrap and pig iron prices, both raw materials used by IPSCO.

Imports from elsewhere, especially the former communist bloc, continue to be of concern and will be monitored closely.

On balance the outlook for 1998 and as far as can be seen into 1999 is one of continuing

profitability with its precise level dependent on the longer term impact of the Asian financial crisis, if any, and the ongoing level of offshore imports. Into 1999 IPSCO's investments in Toronto and Blytheville, Arkansas should also have a positive impact.

1997

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of IPSCO Inc., and all information in this report, were prepared by management, which is responsible for its integrity and objectivity.

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some estimates based upon management's judgments. The significant accounting policies, which management believes appropriate for the company, are described in Note 2 to the financial statements. Financial and operating data presented elsewhere in the annual report are consistent with the information contained in the financial statements.

The integrity and reliability of IPSCO's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. Internal accounting controls are continually monitored by an internal audit staff through ongoing reviews and comprehensive audit programs. IPSCO regularly communicates throughout the organization the requirement for employees to maintain high ethical standards in their conduct of the company's affairs.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee of the Board. The Board of Directors annually appoints this Audit Committee which is comprised of directors who are neither employees of IPSCO nor of companies affiliated with the company. This committee meets regularly with management, the head of the internal audit department, and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the Audit Committee. Following its review of the financial statements and annual report and discussions with the shareholders' auditors, the Audit Committee reports to the Board of Directors prior to the Board's approval of the financial statements and annual report. The Audit Committee recommends the appointment of the company's external auditors, who are appointed by the company's shareholders at its annual meeting.

Ernst & Young, Chartered Accountants, the shareholders' auditors, have performed an independent audit in accordance with generally accepted auditing standards and have attested to the fairness, in all material respects, of the presentation of the financial statements. Their report follows.



Roger Phillips
President and Chief Executive Officer
26 January 1998



Edwin Tiefenbach
Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of IPSCO Inc.

We have audited the consolidated statements of financial position of IPSCO Inc. as at 31 December 1997 and 1996 and the consolidated statements of income and retained earnings, and changes in cash position for each of the years in the three year period ended 31 December 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at 31 December 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended 31 December 1997 in accordance with accounting principles generally accepted in Canada.

Regina, Canada
26 January 1998

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

Chartered Accountants

Financial Statements

IPSCO Inc. Consolidated Statements of Financial Position


As at 31 December


(thousands of Canadian dollars)

	Notes	1997	1996
CURRENT ASSETS			
Cash and cash equivalents		\$ 161,846	\$ 226,701
Accounts receivable			
Trade less allowances	3	145,013	111,206
Other		3,551	2,797
Inventories	4	281,573	168,119
Prepaid expenses		2,235	1,709
Income taxes allocated to future years		28,261	19,066
		<u>622,479</u>	<u>529,598</u>
CURRENT LIABILITIES			
Accounts payable and accrued charges	5	178,973	140,111
Accrued payroll and related liabilities		30,226	21,830
Income and other taxes payable		46,284	6,147
Current portion of long-term debt	8	1,573	1,504
Other current liabilities		7,111	7,903
		<u>264,167</u>	<u>177,495</u>
WORKING CAPITAL		<u>358,312</u>	<u>352,103</u>
Long-term securities	6	—	92,531
Capital assets	7	1,020,982	777,198
Deferred charges		3,736	4,584
		<u>1,024,718</u>	<u>874,313</u>
TOTAL INVESTMENT		<u>1,383,030</u>	<u>1,226,416</u>
Long-term debt	8	417,964	385,597
Deferred pension credit	9	7,225	6,195
Deferred gain on sale-leaseback		—	10,510
Income taxes allocated to future years		24,191	32,853
		<u>449,380</u>	<u>435,155</u>
SHAREHOLDERS' EQUITY		<u>\$ 933,650</u>	<u>\$ 791,261</u>
Derived from			
Capital stock	10	\$ 389,987	\$ 389,502
Retained earnings	11	513,177	394,018
Cumulative translation adjustment	12	30,486	7,741
		<u>\$ 933,650</u>	<u>\$ 791,261</u>
Commitments and contingencies	18&21		

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board


John Beddome, Director


Roger Phillips, Director

Financial Statements

IPSCO Inc. Consolidated Statements of Income and Retained Earnings
Years Ended 31 December
(thousands of Canadian dollars except per share data)

	Notes	1997	1996	1995
Revenue				
Sales		<u>\$ 1,025,642</u>	<u>\$ 804,898</u>	<u>\$ 706,306</u>
Expenses				
Cost of sales, exclusive of the following items		765,210	619,771	521,351
Selling, research and administration		44,458	42,082	38,730
Interest on long-term debt		8,865	2,007	7,490
Amortization of capital assets		<u>19,212</u>	<u>19,225</u>	<u>19,806</u>
		<u>837,745</u>	<u>683,085</u>	<u>587,377</u>
Income before income taxes		187,897	121,813	118,929
Income taxes	13	<u>55,724</u>	<u>38,515</u>	<u>37,274</u>
NET INCOME		132,173	83,298	81,655
RETAINED EARNINGS AT BEGINNING OF YEAR		<u>394,018</u> <u>526,191</u>	<u>323,729</u> <u>407,027</u>	<u>255,075</u> <u>336,730</u>
Dividends (1997, 1996 and 1995 \$.48 per common share)		<u>13,014</u>	<u>13,009</u>	<u>13,001</u>
RETAINED EARNINGS AT END OF YEAR		<u>\$ 513,177</u>	<u>\$ 394,018</u>	<u>\$ 323,729</u>
EARNINGS PER COMMON SHARE – Basic		\$ 4.88	\$ 3.07	\$ 3.01
– Fully Diluted		\$ 4.71	\$ 3.00	\$ 2.97

The accompanying notes are an integral part of the consolidated financial statements.

Financial Statements

IPSCO Inc. Consolidated Statements of Changes in Cash Position
Years Ended 31 December
(thousands of Canadian dollars)

	Notes	1997	1996	1995
CASH DERIVED FROM (APPLIED TO)				
Operating activities				
Working capital provided by operations	14	\$ 134,590	\$ 95,364	\$ 98,082
Change in non-cash operating working capital	14	(60,051)	(41,128)	(3,930)
		<u>74,539</u>	<u>54,236</u>	<u>94,152</u>
Financing activities				
Dividends		(13,014)	(13,009)	(13,001)
Shares issued pursuant to share option plan	10	485	124	299
Issue (repayment) of long-term debt	8	18,733	98,495	(45,000)
Debt issue expenses		(390)	(1,447)	-
		<u>5,814</u>	<u>84,163</u>	<u>(57,702)</u>
Investing activities				
Expenditures for capital assets	15	(228,117)	(118,198)	(237,840)
Proceeds from sale of assets		-	8,564	25,907
Investment	16	(16,425)	-	-
Reduction in long-term securities		92,531	60,181	233,955
Cash effect of translation of foreign subsidiaries		6,803	229	(2,044)
		<u>(145,208)</u>	<u>(49,224)</u>	<u>19,978</u>
INCREASE (DECREASE) IN CASH		(64,855)	89,175	56,428
CASH POSITION AT BEGINNING OF YEAR		<u>226,701</u>	<u>137,526</u>	<u>81,098</u>
CASH POSITION AT END OF YEAR		<u>\$ 161,846</u>	<u>\$ 226,701</u>	<u>\$ 137,526</u>

Cash position comprises cash and cash equivalents plus marketable securities.

The accompanying notes are an integral part of the consolidated financial statements.

Financial Statements

IPSCO Inc. Notes to Consolidated Financial Statements
For the Years Ended 31 December
(thousands of Canadian dollars except per share data)

Audited
Financial
Statements
31 December
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1. Nature of Operations

IPSCO Inc. is an integrated producer of steel products which is its primary line of business and dominant industry segment. The company's products are sold primarily in Canada and the United States.

The company currently employs approximately 2,000 people, of whom approximately 33% are non-unionized personnel and approximately 67% are represented by trade unions.

The company is a party to separate collective bargaining agreements with a term to 31 July 2002 with locals of the United Steelworkers of America (USWA) which represent unionized employees in Regina, Calgary and Edmonton. These employees account for approximately 89% of the company's unionized employees.

Transactions with one significant customer in the year ended 31 December 1997 accounted for 15% of sales. In 1996 one customer accounted for 12% of sales and in 1995 no customer accounted for more than 10% of sales.

At 31 December 1997 two customers represented 16% and 10% of the accounts receivable balance. At 31 December 1996 three customers represented 13%, 13%, and 12% of the accounts receivable balance.

2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and include certain estimates based on management's judgments. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates. The accounting policies followed by the company also conform in all material respects with accounting principles generally accepted in the United States, except as described in note 20.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its subsidiaries. Significant inter-company transactions are eliminated on consolidation.

FOREIGN CURRENCIES

a) Self-sustaining foreign subsidiaries

The company's foreign subsidiaries are accounted for as self-sustaining operations and have been translated into Canadian dollars on the following basis:

- i) Assets and liabilities at the rate of exchange in effect at the end of the year;
- ii) Revenue and expenses at the monthly average exchange rate.

All adjustments arising from foreign currency translation of foreign subsidiaries are included as a separate component of shareholders' equity.

b) Other foreign currency assets and liabilities

Other foreign denominated monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the end of the year. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction dates. Revenue and expense items are translated at the monthly average exchange rate. Differences arising on translation are recorded in determining income for the year.

Financial Statements

c) Hedges

Adjustments arising from foreign currency translation of long-term debt which has been designated as a hedge of self-sustaining foreign operations are included as a separate component of shareholders' equity.

CASH EQUIVALENTS

Cash equivalents are securities of the government of Canada and its provinces, banks, and other corporations, with a maturity of less than three months when purchased. These highly liquid securities are short-term, with a fixed interest rate.

LONG-TERM SECURITIES

Long-term securities are securities of the government of Canada and its provinces, agencies of the government of the United States, banks, and other corporations. The maturity dates of these securities were timed to meet payment obligations of the company's new U.S. steel mill facility. As the securities were committed and were held to maturity, they were carried at amortized cost.

INVENTORIES

Inventories are valued at the lowest of average cost, replacement cost and net realizable value.

INCOME TAXES

Income taxes are accounted for by the deferral method of income tax allocation. Income taxes allocated to future years are due primarily to claiming capital cost allowance for tax purposes in excess of amortization recorded in the accounts. In addition, accounting provisions are recognized which are not deductible for tax purposes.

GOVERNMENT ASSISTANCE AND INVESTMENT TAX CREDITS

Government assistance received and investment tax credits earned on the purchase of capital assets are accounted for under the cost reduction method.

CAPITAL ASSETS

Capital assets are stated at cost. For major projects under construction, the company capitalizes interest based on expenditures incurred to the extent of interest costs on debt specifically raised for the project and any debt outstanding at the time the project commences.

Amortization is provided on the straight-line basis at the following annual rates:

Buildings	4%
Machinery and Equipment	4% to 10%

Amortization is provided on all assets acquired as they come into production.

REPAIR AND MAINTENANCE COSTS

Repair and maintenance costs are expensed as incurred except for the estimated cost of major overhauls and repairs which are accrued over the period between the major expenditures.

DEFERRED CHARGES

Financing costs relating to long-term debt are deferred and amortized over the term of the related debt and included in interest expense for the year.

Financial Statements

PENSION EXPENSE AND DEFERRED PENSION CREDIT

The cost of pension benefits earned by the employees covered by defined benefit plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations, and retirement ages of plan members. Adjustments for plan amendments, changes in assumptions and experience gains and losses are charged to operations over the expected average remaining service life of the employee group which is approximately 13 years. The costs of pension benefits for defined contribution plans are charged to operations as contributions become due.

DEFERRED GAIN ON SALE-LEASEBACK

The gain realized on the sale and leaseback of certain capital assets was deferred and amortized to income on a straight-line basis over the term of the lease. During 1997 these capital assets were repurchased and the remaining deferred gain was credited to capital assets.

POST RETIREMENT BENEFITS

The company provides certain benefits to eligible retirees. The cost of providing these benefits is charged to operations as incurred.

EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of shares outstanding during the year.

Fully diluted earnings per common share assumes the exercise of options described in note 10.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates its fair value.

Long-term securities

The fair value of the company's long-term securities had been estimated based on current quoted market prices.

Long-term debt

The fair value of the company's long-term debt has been estimated based on current market prices. Where no market value is available, an estimate based on current rates for similar instruments with similar maturities has been used to approximate fair value.

3. Accounts Receivable

On 23 May 1997, the company entered into an agreement to sell accounts receivable, on a revolving basis, up to a maximum value of \$50,000, with limited recourse. At 31 December 1997, \$Nil of accounts receivable have been sold pursuant to this agreement. The agreement may be terminated under certain conditions at any time by the company or the purchaser and in any event, on 23 May 2002.

Financial Statements

4. Inventories

	1997	1996
Finished goods	\$ 99,556	\$ 57,424
Work-in-process	76,298	47,203
Raw materials	61,370	31,605
Supplies	44,349	31,887
	<u>\$ 281,573</u>	<u>\$ 168,119</u>

5. Operating Reserves

Included in accounts payable and accrued charges is an accrual to cover the costs of major overhauls and repairs. Timing of these expenditures is dictated by future events and market conditions. At 31 December 1997 and 1996, the amounts accrued are \$15,017 and \$14,737 respectively.

6. Long-Term Securities

At 31 December 1996, the following is an analysis of long-term securities:

	Carrying Value	Gross Unrealized Losses	Fair Value
Commercial paper	\$ 32,660	\$ 14	\$ 32,646
Term deposits	59,871	—	59,871
	<u>\$ 92,531</u>	<u>\$ 14</u>	<u>\$ 92,517</u>

Long-term securities outstanding at 31 December 1996 yielded an effective interest rate of 5.4% to 5.5%.

Financial Statements

7. Capital Assets

	1997			1996		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 6,678	\$ —	\$ 6,678	\$ 6,649	\$ —	\$ 6,649
Buildings	64,525	37,455	27,070	63,727	35,026	28,701
Machinery and equipment	440,546	191,126	249,420	353,912	175,829	178,083
Construction in progress	709,350	—	709,350	537,036	—	537,036
	<u>1,221,099</u>	<u>228,581</u>	<u>992,518</u>	<u>961,324</u>	<u>210,855</u>	<u>750,469</u>
Assets held for sale or redeployment	46,655	18,191	28,464	44,700	17,971	26,729
	<u>\$ 1,267,754</u>	<u>\$ 246,772</u>	<u>\$ 1,020,982</u>	<u>\$ 1,006,024</u>	<u>\$ 228,826</u>	<u>\$ 777,198</u>

Certain capital assets, which are not employed in production, have been segregated pending a decision on ultimate disposition and are carried at an amount not exceeding management's best estimate of net realizable value.

During the year, \$21,149 (1996 - \$20,976, 1995 - \$17,894) of interest costs were capitalized.

Financial Statements

8. Debt

	Carrying Value		Fair Value	
	1997	1996	1997	1996
a) Long-term debt				
10.58% \$8,800 U.S. (1996 - \$9,900) unsecured note, payable in eight equal annual instalments with next payment due 01 September 1998	\$ 12,580	\$ 13,541	\$ 14,342	\$ 15,572
6.94% \$100,000 U.S. unsecured notes, payable in five equal annual instalments commencing 01 April 2000	142,960	136,780	144,651	136,178
7.32% \$100,000 U.S. unsecured notes, payable in seven equal annual instalments commencing 01 April 2003	142,960	136,780	147,000	137,601
7.80% Unsecured debentures, maturing and payable 01 December 2006	100,000	100,000	109,660	105,900
6.00% \$14,715 U.S. unsecured loan, maturing and payable 1 June 2007. The company has the option at maturity to extend the term of the loan to no later than 1 June 2027 at an interest rate to be negotiated	21,037 419,537	— 387,101	22,193 437,846	— 395,251
Less current portion of long-term debt	(1,573) \$ 417,964	(1,504) \$ 385,597	(1,793) \$ 436,053	(1,730) \$ 393,521

Financial Statements

b) Operating lines of credit

At 31 December 1997, the company had bank lines of credit aggregating \$250,000 (1996 - \$200,000) of which \$Nil (1996 - \$Nil) had been drawn down. Bank lines of credit are comprised of a \$175,000 (1996 - \$125,000) revolving term facility that expires 31 December 2001 and a \$75,000 (1996 - \$75,000) demand operating facility. Both facilities bear interest at either the Canadian prime rate or the U.S. base rate and are not secured by specific assets of the company.

At 31 December 1997, a partnership in which the company has a 51% interest had short-term bank lines of credit aggregating \$17,000 of which \$1,173 had been drawn down. Bank lines of credit are reviewed at least annually and are revolving operating and term facilities that bear interest at either the Canadian prime rate or the U.S. base rate and are secured by certain assets of the partnership.

9. Pension Plans

The company provides retirement benefits for substantially all of its employees under several defined benefit and defined contribution plans. The defined benefit plans provide benefits that are based on a combination of years of service and an amount that is either fixed or based on final earnings. The defined contribution plans restrict the company's matching contributions to 5% of each participating employee's annual earnings.

The company's policy with regard to the defined benefit plans is to fund the amount that is required by governing legislation.

Net pension expense attributable to the company's pension plans for 1997, 1996 and 1995 included the following components:

	1997	1996	1995
Defined benefit plans			
Service cost for benefits earned	\$ 3,566	\$ 4,175	\$ 4,170
Interest cost on projected benefit obligations	8,044	8,625	7,828
Return on assets in plans	(7,969)	(7,527)	(6,653)
Net amortization	(111)	1,004	938
Curtailments and settlements	—	—	1,518
	<u>3,530</u>	<u>6,277</u>	<u>7,801</u>
Defined contribution plans	1,000	745	578
Net pension expense	<u>\$ 4,530</u>	<u>\$ 7,022</u>	<u>\$ 8,379</u>

Financial Statements

The following table sets forth the defined benefit plans' funded status and amount included in the deferred pension credit in the company's statement of financial position at 31 December 1997 and 1996:

	1997	1996
Accumulated benefit obligation		
Vested	\$ (98,301)	\$ (93,516)
Nonvested	(265)	(55)
Effect of future compensation escalation	(9,073)	(8,424)
Projected benefit obligation	(107,639)	(101,995)
Market value of plan assets as at 31 December consisting primarily of investments in Canadian and foreign equities, short-term securities and bonds	104,220	100,773
Deficit	(3,419)	(1,222)
Items not yet recognized in earnings		
Unrecognized transition gains	(2,855)	(3,301)
Unrecognized experience gains	(21,891)	(13,150)
Unrecognized amendments to the plan	20,940	11,478
Deferred pension credit	<u>\$ (7,225)</u>	<u>\$ (6,195)</u>

The discount rate and long-term rate of return on assets used in determining the pension expense, experience gains and funded status information shown above was 8.5% at 31 December 1997 and 1996. Variances between such estimates and actual experience, which may be material, are amortized over the employees' average remaining service life.

10. Capital Stock

a) Authorized Capital

The company is authorized to issue unlimited common shares and unlimited first and second preferred shares.

The first and second preferred shares may be issued in series and the directors of the company may fix, before issuance, the rights, privileges, restrictions and conditions attached thereto.

Financial Statements

b) Issued Capital

Following is the continuity of common shares outstanding:

	1997		1996		1995	
	Number	Amount	Number	Amount	Number	Amount
Balance at beginning of year	27,103,674	\$389,502	27,098,674	\$389,378	27,080,674	\$389,079
Exercise of share options	21,500	485	5,000	124	18,000	299
Balance at end of year	<u>27,125,174</u>	<u>\$389,987</u>	<u>27,103,674</u>	<u>\$389,502</u>	<u>27,098,674</u>	<u>\$389,378</u>

c) Stock Split

On 8 December 1997, the Board of Directors of the company declared a three-for-two stock split, effected in the form of a stock dividend, payable on or about 9 March 1998 to shareholders of record at the close of business on 28 February 1998. These financial statements do not give retroactive effect to this stock split.

d) Share Option Plan

The company has a share option plan under which common shares are reserved for directors, officers and employees. These options, which are exercisable within ten years, are to be granted at a price established by the Board of not less than 100% of the last Toronto Stock Exchange board lot trading price prior to the day of the grant. The options outstanding at 31 December 1997, which expire between 2000 and 2007 (weighted average remaining contractual life is eight years) are exercisable in a price range of \$15.50 to \$55.15 per share.

Following is the continuity of granted options outstanding:

	1997		1996		1995	
	Weighted Average Exercise Price		Weighted Average Exercise Price		Weighted Average Exercise Price	
	Number	Price	Number	Price	Number	Price
Balance at beginning of year	1,031,950	\$26.03	856,950	\$25.10	511,700	\$22.35
Options granted	219,750	52.39	181,500	30.38	363,250	28.56
	1,251,700	30.66	1,038,450	26.02	874,950	24.93
Options exercised	(21,500)	22.59	(5,000)	24.75	(18,000)	16.61
Options cancelled	(4,000)	27.75	(1,500)	25.25	—	—
Balance at end of year	<u>1,226,200</u>	<u>\$30.81</u>	<u>1,031,950</u>	<u>\$26.03</u>	<u>856,950</u>	<u>\$25.10</u>

Financial Statements

Following is the continuity of unissued options reserved under the plan:

	1997	1996	1995
Balance at beginning of year	599,075	29,075	392,325
Options approved	–	750,000	–
Options granted	(219,750)	(181,500)	(363,250)
Options cancelled	4,000	1,500	–
Balance at end of year	<u>383,325</u>	<u>599,075</u>	<u>29,075</u>

11. Dividend Restriction

The most restrictive covenant in the company's financing agreements requires consolidated shareholders' equity to be maintained at a minimum of \$600,000 plus 50% of net income earned after 31 December 1996. At 31 December 1997, the minimum shareholders' equity required is \$666,087.

12. Cumulative Translation Adjustment

The cumulative translation adjustment represents the unrealized gain or loss on the company's net investment in self-sustaining foreign operations. Also included is the effect of exchange rate changes on transactions designated as hedges of the net foreign investment.

The change in the cumulative translation adjustment during the year ended 31 December 1997 of \$22,745 (1996 - \$1,342) results primarily from fluctuations of the Canadian dollar against the U.S. dollar.

13. Income Taxes

a) The geographical components of income before income taxes are summarized below:

	1997	1996	1995
Canada	\$ 184,211	\$ 109,217	\$ 113,195
Foreign	<u>3,686</u>	<u>12,596</u>	<u>5,734</u>
	<u>\$ 187,897</u>	<u>\$ 121,813</u>	<u>\$ 118,929</u>

Financial Statements

b) The provision for income taxes is summarized as follows:

	1997	1996	1995
Current			
Canada	\$ 71,570	\$ 45,156	\$ 42,901
Foreign	2,714	—	—
	<u>74,284</u>	<u>45,156</u>	<u>42,901</u>
Deferred			
Canada	(14,703)	(11,135)	(7,773)
Foreign	(3,857)	4,494	2,146
	<u>(18,560)</u>	<u>(6,641)</u>	<u>(5,627)</u>
	<u>\$ 55,724</u>	<u>\$ 38,515</u>	<u>\$ 37,274</u>

c) Income taxes allocated to future years result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and their effect on income taxes are as follows:

	1997	1996	1995
Excess (deficiency) of capital cost allowance over amortization	\$ 3,661	\$ (250)	\$ 2,289
Excess (deficiency) of contributions over pension expense	(71)	327	(944)
Deferred amounts	(18,696)	(12,213)	(12,975)
Operating losses	(3,821)	—	—
Utilization of operating losses	—	4,518	5,377
Inventory carrying costs	105	18	(158)
Other	262	959	784
	<u>\$ (18,560)</u>	<u>\$ (6,641)</u>	<u>\$ (5,627)</u>

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- d) Income tax expense differs from the amount computed by applying the corporate income tax rates (Canadian Federal and Provincial) to income before income taxes. The reason for this difference is as follows:

	1997	1996	1995
Corporate income tax rate	<u>45.3%</u>	<u>45.1%</u>	<u>45.1%</u>
Provision for income taxes based on corporate income tax rate	\$ 85,117	\$ 54,962	\$ 53,649
Increase (decrease) in taxes resulting from			
Manufacturing and processing profit	(21,906)	(5,811)	(7,055)
Large corporation tax	799	(889)	(87)
Income taxed at different rates in			
foreign jurisdictions	(11,224)	(10,665)	(9,595)
Other	2,938	918	362
	<u>\$ 55,724</u>	<u>\$ 38,515</u>	<u>\$ 37,274</u>

- e) At 31 December 1997, foreign subsidiaries of the company had accumulated net operating losses carried forward of \$14,373 for which the future tax benefits have been recorded. The related tax benefits can be carried forward and, subject to certain limitations, offset against income tax expense arising in future periods up to the year 2012.

14. Cash Derived from (Applied to) Operating Activities

	1997	1996	1995
Working capital provided by operations			
Net income	\$ 132,173	\$ 83,298	\$ 81,655
Gain on sale of assets	—	—	(488)
Amortization of capital assets	19,212	19,225	19,806
Amortization of deferred charges	1,238	1,277	1,314
Deferred pension expense	1,030	(789)	2,428
Amortization of deferred gain on sale lease-back	(503)	(1,006)	(1,006)
Income taxes allocated to future years	(18,560)	(6,641)	(5,627)
	<u>\$ 134,590</u>	<u>\$ 95,364</u>	<u>\$ 98,082</u>
Change in non-cash operating working capital			
Trade receivables	\$ (30,737)	\$ (35,519)	\$ 19,152
Other receivables	272	4,113	1,380
Inventories	(109,247)	(31,346)	3,663
Prepaid expenses	(267)	572	(104)
Accounts payable and accrued charges	32,168	27,041	(27,050)
Accrued payroll and related liabilities	8,396	4,173	(636)
Income and other taxes payable	40,156	(11,225)	670
Other current liabilities	(792)	1,063	(1,005)
	<u>\$ (60,051)</u>	<u>\$ (41,128)</u>	<u>\$ (3,930)</u>

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15. Expenditures for Capital Assets

	1997	1996	1995
Additions to capital assets	\$ 214,735	\$ 126,583	\$ 219,797
Decrease (increase) in accounts payable and accrued charges for capital expenditures	13,382	(8,385)	18,043
	<u>\$ 228,117</u>	<u>\$ 118,198</u>	<u>\$ 237,840</u>

16. Investment

A partnership formed between the company and Jamel Metals Ltd. ("Jamel"), formerly General Scrap & Car Shredder Ltd. ("General Scrap"), purchased the Canadian scrap metal operations of General Scrap and the shares of Sametco Auto Inc., an automotive parts operation, effective 1 April 1997 for approximately \$37,000, including the assumption of debt. IPSCO's interest in the capital of the partnership is 51% and will increase to 100% over the next five years. The company contributed \$15,412 of capital to the partnership. Total assets and liabilities of the partnership at fair value are \$41,303 and \$11,084 respectively. There was no goodwill arising from this acquisition.

17. Segmented Information

Financial information on the company's geographic segments follows. Operating income is defined as sales revenue less cost of sales, selling, research and administration expenses and amortization of capital assets.

	1997	1996	1995
Sales - External			
Canada	\$ 871,054	\$ 648,831	\$ 569,793
USA	154,588	156,067	136,513
	<u>\$ 1,025,642</u>	<u>\$ 804,898</u>	<u>\$ 706,306</u>
Operating income			
Canada	\$ 202,423	\$ 120,447	\$ 111,334
USA	11,132	10,902	10,545
Corporate	(16,793)	(7,529)	4,540
	<u>\$ 196,762</u>	<u>\$ 123,820</u>	<u>\$ 126,419</u>
Total investment			
Canada	\$ 446,317	\$ 317,593	
USA	774,867	589,591	
Corporate	161,846	319,232	
	<u>\$ 1,383,030</u>	<u>\$ 1,226,416</u>	

Financial Statements

Canadian operations include export sales of domestic product of \$65,112 (1996 - \$54,915, 1995 - \$45,967).

Sales from the Canadian segment directly to USA customers and to the USA segment at market prices amounted to \$88,753 (1996 - \$94,660, 1995 - \$116,163).

Corporate operating income includes revenue and expenses which are not specifically allocable to either segment.

18. Commitments

- a) The company and its subsidiaries have lease commitments on property for the period to 2007.

The payments required by these leases are as follows:

1998	\$ 3,672
1999	2,961
2000	1,581
2001	1,388
2002	<u>1,388</u>
	10,990
2003 - 2007	<u>2,603</u>
	<u>\$ 13,593</u>

Rental expenses incurred under operating leases during 1997, 1996 and 1995 were \$9,798, \$13,947 and \$12,612 respectively.

- b) At 31 December 1997, the estimated cost to complete capital programs in progress is \$109,929, of which \$17,394 is committed. This includes the estimated cost to commission the company's new U.S. steel mill facility.

19. Supplemental Information

	1997	1996	1995
Allowance for doubtful accounts	\$ <u>1,740</u>	\$ <u>1,602</u>	\$ <u>1,536</u>
Doubtful accounts charged to expense	\$ <u>108</u>	\$ <u>584</u>	\$ <u>—</u>
Interest income	\$ <u>11,339</u>	\$ <u>13,985</u>	\$ <u>22,358</u>
Other interest expense	\$ <u>574</u>	\$ <u>150</u>	\$ <u>169</u>
Miscellaneous income	\$ <u>3,474</u>	\$ <u>2,121</u>	\$ <u>3,664</u>
Net foreign exchange gain (loss)	\$ <u>1,170</u>	\$ <u>93</u>	\$ <u>(406)</u>
Interest paid	\$ <u>31,253</u>	\$ <u>21,054</u>	\$ <u>26,483</u>
Income tax instalments paid	\$ <u>25,511</u>	\$ <u>61,777</u>	\$ <u>44,119</u>

Financial Statements

20. Significant Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP)

- a) Reconciliation of net income between accounting principles generally accepted in Canada and the United States:

	1997	1996	1995
Net income as reported under Canadian GAAP	\$ 132,173	\$ 83,298	\$ 81,655
Adjustments relating to the liability method of accounting for income taxes (i)	(1,340)	(1,187)	9,245
Adjustments relating to the capitalization of interest (ii)	5,559	1,037	—
Adjustments relating to commissioning costs (iii)	(26,259)	—	—
Net income in accordance with U.S. GAAP	<u>\$ 110,133</u>	<u>\$ 83,148</u>	<u>\$ 90,900</u>
Earnings per common share:			
United States			
Basic	<u>\$ 4.06</u>	<u>\$ 3.07</u>	<u>\$ 3.36</u>
Fully diluted	<u>\$ 3.99</u>	<u>\$ 3.05</u>	<u>\$ 3.35</u>
Number of shares for earnings per common share			
Number of shares – basic	27,111,341	27,101,174	27,084,806
Adjustment for share options computation	473,670	184,454	26,579
Number of shares - fully diluted	<u>27,585,011</u>	<u>27,285,628</u>	<u>27,111,385</u>

New U.S. accounting standards regarding the determination of earnings per share have recently been issued by the Financial Accounting Standards Board (FASB). The company has adopted these new standards for the year ended 31 December 1997. These new standards required restatement of the earnings per common share amounts for 1996 and 1995 above and in note 20 (d) (ii).

Financial Statements

- i) United States GAAP requires the liability method of accounting for income taxes whereas Canadian GAAP requires the deferral method. At 31 December, deferred tax assets and liabilities are as follows:

	1997		1996	
	Assets	Liabilities	Assets	Liabilities
Current:				
Accounting provisions not deductible for tax purposes	\$ 27,049	\$ -	\$ 17,649	\$ -
Capitalized general and administration	1,212	-	1,417	-
Total current	<u>\$ 28,261</u>	<u>\$ -</u>	<u>\$ 19,066</u>	<u>\$ -</u>
Non-Current:				
Capital cost allowance in excess of amortization	\$ -	\$ 24,329	\$ -	\$ 46,247
Net operating loss carry forwards	5,664	-	2,511	-
Pension expense in excess of contribution	6,141	-	2,355	-
Deferred gain on sale-leaseback	-	-	1,891	-
Other	10,334	-	13,762	-
Total non-current	<u>\$ 22,139</u>	<u>\$ 24,329</u>	<u>\$ 20,519</u>	<u>\$ 46,247</u>

- ii) United States GAAP requires interest to be capitalized on the expenditures incurred for all major projects under construction to the extent of all interest costs during the year. For Canadian GAAP, the company only capitalizes interest to the extent of debt specifically raised for the project and any debt outstanding at the time the project commences.
- iii) United States GAAP requires commissioning or startup costs to be expensed as incurred. For Canadian GAAP, these costs are capitalized.

Financial Statements

- b) Reconciliation of the statement of financial position between accounting principles generally accepted in Canada and the United States:

	1997	1996
i) Capital assets		
Balance under Canadian GAAP	\$ 1,020,982	\$ 777,198
Adjustments relating to the capitalization of interest	10,639	1,774
Adjustments relating to commissioning costs	(42,353)	-
Balance under U.S. GAAP	<u>\$ 989,268</u>	<u>\$ 778,972</u>
ii) Deferred charges		
Balance under Canadian GAAP	\$ 3,736	\$ 4,584
Adjustments relating to minimum pension liability	16,351	-
Balance under U.S. GAAP	<u>\$ 20,087</u>	<u>\$ 4,584</u>
iii) Deferred pension credit		
Balance under Canadian GAAP	\$ 7,225	\$ 6,195
Adjustments relating to minimum pension liability	25,372	-
Balance under U.S. GAAP	<u>\$ 32,597</u>	<u>\$ 6,195</u>
iv) Income taxes allocated to future years		
Balance under Canadian GAAP	\$ (4,070)	\$ 13,787
Adjustments relating to the capitalization of interest	4,043	737
Adjustments relating to commissioning costs	(16,094)	-
Adjustments relating to minimum pension liability	(3,428)	-
Adjustments relating to the liability method of accounting for income taxes	(6,522)	(7,862)
Balance under U.S. GAAP	<u>\$ (26,071)</u>	<u>\$ 6,662</u>
v) Common shareholders' equity		
Balance under Canadian GAAP	\$ 933,650	\$ 791,261
Adjustments relating to the capitalization of interest	6,596	1,037
Adjustments relating to commissioning costs	(26,259)	-
Adjustments relating to minimum pension liability	(5,593)	-
Adjustments relating to the liability method of accounting for income taxes	6,522	7,862
Balance under U.S. GAAP	<u>\$ 914,916</u>	<u>\$ 800,160</u>

In accordance with FASB Statement No. 87, the company has recorded an additional minimum pension liability for underfunded plans representing the excess of unfunded accumulated benefit obligations over previously recorded pension cost liabilities. A corresponding amount is recognized as a deferred charge except to the extent that these additional liabilities exceed related unrecognized prior service cost and net transition obligation, in which case the increase in liabilities is charged directly to shareholders' equity, net of related deferred income taxes.

Financial Statements

- c) U.S. GAAP defines cash position to only include cash and cash equivalents, and requires separate disclosure of the translation effect on cash balances of self sustaining foreign operations. These changes would result in the following restatements of the company's statement of changes in cash position.

	1997	1996	1995
Cash derived from operating activities	\$ 41,051	\$ 55,753	\$ 98,388
Cash derived from (applied to) financing activities	\$ 5,814	\$ 84,163	\$ (57,702)
Cash derived from (applied to) investing activities	\$ (118,523)	\$ (50,224)	\$ 72,752
Effect of exchange rate changes on cash	\$ 6,803	\$ 486	\$ (6,280)
Cash position at 31 December	\$ 161,846	\$ 226,701	\$ 136,523

- d) Additional disclosure required under U.S. GAAP:

- i) Following U.S. GAAP the accumulated benefit obligation in the company's pension plans would have been approximately \$131,000 and \$103,000, and the projected benefit obligation would have been approximately \$143,000 and \$113,000 in 1997 and 1996 respectively.
- ii) The company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") in accounting for its employee stock options under accounting principles generally accepted in the United States. Under APB 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. This is in conformity with Canadian GAAP. However, FAS 123 requires the disclosure of pro forma information regarding net income and earnings per share using option valuation models that calculate the fair value of employee stock options granted.

The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for 1997 and 1996, respectively: Risk-free interest rates of 4.3% and 6.4%; dividend yields of .9% and 1.6%; volatility factors of the expected market price of the company's common stock of .20 and .19; and a weighted-average expected life of the options of two years.

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Financial Statements

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. The company's pro forma information follows:

	1997	1996	1995
Pro forma net income	<u>\$ 108,785</u>	<u>\$ 82,407</u>	<u>\$ 90,803</u>
Pro forma earnings per common share:			
Basic	<u>\$ 4.01</u>	<u>\$ 3.04</u>	<u>\$ 3.35</u>
Fully diluted	<u>\$ 3.94</u>	<u>\$ 3.02</u>	<u>\$ 3.35</u>

- iii) During 1997, the FASB issued new accounting standards regarding the reporting of comprehensive income. The standard is applicable to companies with fiscal years commencing after 15 December 1997. Comprehensive income is defined as non-owner changes in shareholder's equity, including net earnings for the period. In 1998, the company will present all other comprehensive income items, which is currently comprised of changes in the company's foreign currency translation account, in addition to net earnings as part of the note reconciling Canadian and U.S. GAAP information.

Also during 1997, Canadian and U.S. accounting standards have been issued regarding the disclosure of segment information. The company will adopt the new standards for the year ended 31 December 1998. The company has not determined the impact of this standard. However, the company will be required to present interim segment information in years following 1998.

21. Contingencies and Environmental Expenditures

The company's primary line of business is steelmaking and fabricating. The major raw material used in the steelmaking process is reclaimed iron and steel scrap. This recycling has made a significant contribution to protecting the environment. As an ongoing commitment to the environment, the company continues to monitor emissions, perform site clean-up, and invest in new equipment and processes. Nevertheless, rapidly changing environmental legislation and regulatory practices are likely to require future expenditures to modify operations, install pollution control equipment, dispose of waste products, and perform site clean-up and site management. The magnitude of future expenditures cannot be determined at this time. However, management is of the opinion that under existing legislation and regulatory practices, expenditures required for environmental compliance will not have a material adverse effect on the company's financial position. Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on the future economic benefits.

For further information regarding the Company contact:

Anne Parker

Assistant Secretary

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1997 INTRODUCING IPSCO

In this document unless the context otherwise indicates, references to IPSCO or the Company include both IPSCO Inc. and its wholly owned or controlled subsidiaries. Certain statements in this commentary constitute "forward-looking statements". See "Note Regarding Forward-Looking Statements" on page two of the Company's 1997 Annual Report.

IPSCO Inc. is a shareholder-owned, publicly traded corporation with its head office in Regina, Saskatchewan. Its board of directors includes members from both Western and Central Canada and the United States, with business, economics, engineering, and legal backgrounds. Only one director, the president, is a company employee.

IPSCO Inc. was incorporated by certificate of incorporation under the laws of Saskatchewan in 1956 under the name of Prairie Pipe Manufacturing Co. Ltd. with ownership of its shares solely in the hands of some nine investors. The company proceeded to install pipe making facilities in Regina. It became a public company and was listed on the Toronto, Winnipeg and Vancouver stock exchanges in 1958. The name of the Company was changed to Interprovincial Steel and Pipe Corporation Ltd. in 1960. It commenced steel production shortly thereafter. It continued by articles of continuance under the Canada Business Corporations Act in 1977. In 1984 it changed its name to IPSCO Inc., adopting the acronym by which it was generally known, as the full name.

It is currently traded on the Toronto and Alberta Stock exchanges in Canada and the New York Stock Exchange in the United States. Today, IPSCO's shares are almost entirely in the hands of individual investors or financial institutions, such as insurance companies, pension plans, or mutual funds.

The North American steel industry is one characterized by intense competition and significant cyclicity. World steelmaking supply typically exceeds demand and in consequence, both domestic and offshore producers compete aggressively in the areas of price, service, and quality. As well, other materials are competing with steel for many traditional steel end-use applications. The Company is responding to these conditions with a continuing effort to lower its unit costs, diversify its product lines, and widen the geographic markets in which it participates. Over the years the Company expanded on both the Regina site and elsewhere through new construction as well as acquisition.

The Company's financial performance is affected by both the general economic cycle in North America and the demand for some of its specialized products, which may or may not be synchronous with the general cycle. The worldwide state of supply and demand for steel is also a significant factor, as are North American interest and exchange rates.

Steel Production and Processing Facilities:

The following table describes IPSCO's major steel production and steel processing equipment by location, including those currently being developed:

Location	Principal Equipment	Annual Output ¹ Capacity (tons)	Real Property (acres)
Regina, Saskatchewan	Electric arc furnaces, continuous slab caster and hot rolling equipment (Steckel mill)	Capacity sufficient to produce 1,000,000 tons of mill edge coil and discrete plate	570
Montpelier, Iowa	Steel mill completing commissioning process	1,250,000 ⁽²⁾ of discrete plate and hot rolled coil	2,000
Regina, Saskatchewan	2 Slitters	1,000,000	
	Cut-to-length line	150,000	
	24" ERW pipe mill	300,000	
	2" ERW pipe mill	28,000	
	Three spiral weld pipe mills	250,000	
Montpelier, Iowa	Slitter	200,000	
Calgary, Alberta	ERW pipe mill	300,000	82
Edmonton, Alberta	ERW pipe mill	160,000	155
	Spiral pipe mill ⁽¹⁾	64,000	
Red Deer, Alberta	ERW pipe mill	155,000	118
Surrey, British Columbia	Cut-to-length line	150,000	Less than 5
Toronto, Ontario	Cut-to-length line announced 1997 with estimated commissioning date of late 1998	300,000 ⁽²⁾	Leased Facility
St. Paul, Minnesota	Cut-to-length line	200,000	Leased Facility
Camanche, Iowa	Two ERW pipemills and threading equipment	225,000	135
Geneva, Iowa	ERW pipemill	120,000	13
Blytheville, Arkansas	ERW pipemill announced in 1997 with estimated commissioning date of early 1999	300,000 ⁽²⁾	60

⁽¹⁾ Capacity is for welded pipe only. Mill capacity does not include ability to process pipe through finishing line.

⁽²⁾ Expected capacity. Facilities not complete.

Products and Markets:

Discrete plate and hot rolled coils are sold to customers who cut them into smaller pieces and then fabricate end products ranging from lamp poles, oil tanks, railroad cars, and farm implements to truck bodies. The individual steel plates are sold to industrial customers who produce such varied end products as bridges, mining equipment, gears, cranes, ocean vessels, plates and flanges.

In addition, IPSCO itself operates cut-to-length equipment in Regina and in Surrey, British Columbia; a subsidiary, Paper Cal Steel Co. of St. Paul, Minnesota, operates cut-to-length equipment situated there. IPSCO announced in 1997 the installation of a coil-processing facility in Toronto, Ontario at an estimated cost of \$25 million allowing it to expand both in a geographical and product sense.

Hot rolled steel coils are also used by IPSCO customers in the production of tubular products. In addition, IPSCO operates pipe making facilities in Calgary, Red Deer and Edmonton, Alberta; Camanche, Iowa; Geneva, Nebraska; and Regina. Construction of a pipemaking facility in Blytheville, Arkansas at an estimated cost of US \$25 million was announced in 1997 to be operational in 1999. IPSCO makes pipe from 2 inches to 80 inches in diameter but not all pipe mills in the IPSCO group have the same product and size ranges. The tubular products made include:

- plumbing pipe for water distribution (primarily in multi-family dwellings and commercial or industrial establishments),
- oil and gas well casing and tubing (referred to in the trade as "oil country tubular goods" or "OCTG"),
- pipe for gathering oil and gas from wells, transmitting it long distances, and for the final distribution to end-customers (pipe for these purposes is collectively referred to as "line pipe"), water and sewage transmission pipe, tubular products for building and construction applications, most often in square or rectangular cross-sections commonly referred to as "hollow structural sections" or "HSS").

In Canada the Company has sales offices or sales representatives located in Surrey, British Columbia; Edmonton and Calgary, Alberta; near Regina, Saskatchewan and in Toronto, Ontario. U.S. locations include St. Paul, Minnesota; Camanche and Montpelier, Iowa; Houston, Texas; Denver, Colorado; and Tulsa, Oklahoma. Sales of IPSCO products in the United States are mainly conducted through IPSCO Steel Inc., IPSCO Tubulars Inc., Paper Cal Steel Co., and IPSCO Enterprises Inc. The sales and service centres are staffed by a knowledgeable team of sales people with both commercial and technical backgrounds.

The Company distributes its products in the following manner:

OCTG	Predominantly through distributors located in Western Canada and the United States.
Line Pipe	Smaller tonnage sales predominantly through distributors in Western Canada and Southwestern and Midwestern United States. Larger tonnage sales directly from the Company.

Since its founding in 1956 IPSCO has pursued a policy of upgrading its facilities and installing new facilities to take advantage of technological developments which it expects can be translated into higher quality or lower costs. The average age of its approximately \$1.0 billion of fixed assets is 6.7 years reflecting its desire to operate with equipment and processes which utilize current steel production and processing technology.

IPSCO's steelworks, located in Regina, Saskatchewan and Montpelier, Iowa are expected to have a combined annual steelmaking production capability of two and one-quarter million tons of hot rolled coil and discrete plate, once commissioning of the Montpelier, Iowa Steelworks is complete.

The major raw material used in the steel making process is iron or steel scrap. IPSCO's total annual consumption of iron and steel scrap is approximately 110% of its steel production tonnage, thus the Company is a large recycler of steel.

On a combined basis Canada and the United States are traditionally net exporters of steel scrap to customers on other continents. Virtually all scrap transactions are of a "spot" nature, that is price is set at the time of purchase with no forward price protection. Broadly speaking these "spot prices" increase and decrease based upon the supply and demand for steel products and the world-wide demand for scrap.

For both the Regina and Montpelier steelworks, the Company deals with a variety of suppliers for its supply of scrap steel.

For the Regina steelworks, the Company's main suppliers of scrap steel are located in Western Canada and the north-central United States. In the past the Company has been able to source all required scrap steel for Regina even when operating at full capacity. In 1997 the Company entered into a partnership, as the majority interest partner, with the major scrap supplier to the Regina facility. The operation consists of eleven scrap processing centres of which four have licensed scrap shredders. The partnership raises the captive scrap supply for the Regina facility to over half of its maximum requirements.

The Company entered into a supply contract expiring 1 June 1999, with a supplier under which it will purchase a portion of the Montpelier steelworks needs. The supply contract plus the general availability of scrap in the US Midwest are judged by the Company to be sufficient to handle the needs of the Montpelier operation.

The electric arc steelmaking process uses electrical energy which flows through graphite electrodes positioned above the raw materials creating an electrical arc at temperatures up to 5500 degrees Fahrenheit. The use of this electricity makes the steelworks large consumers of electricity. The graphite electrodes are slowly but constantly consumed in the process. Other raw materials include alloys such as manganese, silicon, niobium, vanadium and molybdenum. These alloys are added to certain types of steel in order to impart special properties such as strength, corrosion resistance, and weathering characteristics. Oxygen is used to remove impurities during the steelmaking process and to provide additional energy for melting the raw materials. Carbon dioxide and argon gases are used to shield the liquid steel from air contamination during refining and pouring. The Company's electric arc furnaces produce fine dust which contains heavy metals ("EAF dust"). EAF dust is classified as a hazardous waste and is disposed of in accordance with applicable laws and regulations.

Furnace slag is generated in the steelmaking process (comprising chiefly iron oxide) but can generally be used when sold for roadway and parking lot landfill. A further by-product, iron oxide "fines" removed from cooling water are used as a raw material by some cement companies.

Steelmaking is a water intensive process. Millions of gallons of water are circulated daily in the steel melting and casting operations, chiefly as a process coolant. This water is constantly re-treated, purified, and then recycled. Some additional water is used in the Company's rolling facilities and pipeworks.

The steelworks include slab casters which convert the steel to continuously cast slabs. These slabs are then converted to discrete plate or hot rolled coil in steckel rolling mills. The discrete plate can be .5 to 2 inches thick and in lengths typically from 8 feet to as many as 65 feet long.

IPSCO produces tubular products up to 24 inches in diameter by the electric resistance weld process ("ERW" for short). In the process a coil of steel is continuously fed through a set of rolls to bend it into a cylindrical hollow shape with the coil's length as its axis. The two edges are then heated to red-hot temperatures by applying electrical energy and forced together such that the edges are fused permanently upon cooling.

To produce rectangular or square tubes the round pipe is immediately put through a set of forming rolls to alter its shape.

Pipe diameters over 24 inches to 80 inches, chiefly used in gas and oil long distance transmission, are produced by a process called "spiral pipe making". Coils of steel are continuously fed into equipment which forms a tube by winding it spirally and then welding it together. IPSCO produces spiral pipe at Regina and Edmonton.

Environmental laws in the United States may impose responsibility for remediation of real property, at which releases of hazardous substances have occurred, on the owners or operators of such property, at the time of the releases, regardless of fault. In Canada, pursuant to environmental laws that vary from province to province, responsibility for remediation of real property can be imposed on various categories of persons including owners and operators of real property at the time of the release of hazardous substances at such property regardless of fault. As the owner and operator of numerous properties in the US and Canada the Company could be liable for costs associated with remediation.

Environmental laws and regulations are likely to be amended in the future to impose further limitations on air and water emissions from steel mills, and the enforcement practices of regulatory agencies may become more stringent. Such changes may require future expenditures to modify operations, install environmental control equipment, dispose of waste products, and perform site clean-ups and site management. The magnitude of future expenditures cannot be determined at this time. The Company does not believe its relative competitive position vis-a-vis steelmakers in Canada and the United States will be materially changed by such costs.

Like other companies in the steel industry, the Company is subject to numerous complex federal, provincial, state and local environmental laws and regulations (as well as permits, licenses, and approvals thereunder) concerning, among other things, discharges to water and soil, air emissions, noise control, the generation, handling, storage, transportation, treatment and disposal of hazardous substances and solid waste disposal.

Standard Pipe, Pilings & Water Well Casing	Predominantly through distributors located throughout Canada and the United States.
Large Diameter Pipe	All sales directly from the Company.
Water Pipe	Predominantly sales directly from the Company with some sales through distributors.
Cut-to-Length & Hollow Structural Sections	Sales are primarily to end use customers although a significant portion are made directly to steel service centres.
Steel Mill and Other Other Products	Sales are primarily to original equipment manufacturers and fabricators although a significant portion are made directly to steel service centres.

IPSCO's business philosophy is that it exists to serve customers. While this "truism" is undoubtedly embraced by all manufactures, IPSCO has put its philosophy into practise in a three-pronged approach stressing service, quality, and research and product development.

The ever-increasing demand for the supply of quality products which not only display consistent compliance with customer specifications but also demonstrate a reliability of performance within the customers own process, is addressed by an ongoing commitment to continuous analysis and improvement of IPSCO's production system. Modern statistical process control methods and sophisticated testing techniques in combination with the application of nationally recognized quality standards are aimed at ensuring that IPSCO's customers receive a consistently high quality product. All of IPSCO's works are registered under the ISO 9002-94 quality standards for the production of steel and tubular products.

Research activities are carried out at the Research Centre in Regina. The Company's operations are not dependent to any significant extent on any patent, licence or franchise. Trademarks have come to be identified with certain of the Company's products, which assists in marketing and sales of these products; however, the Company is not significantly dependent on any of them. The Company has made application for a number of patents dealing with various aspects of the steelmaking process.

It is hoped that this brief introduction to IPSCO will be of assistance to shareholders and others.

For further information regarding the Company contact:

Anne Parker
Assistant Secretary

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1997

FORM 40-F (AIF)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-FANNUAL REPORT PURSUANT TO SECTION 13(a) OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 December 1997

Commission file number: 0-19661

IPSCO Inc.

(Exact name of Registrant as specified in its charter)

CANADA

(Province or other jurisdiction of incorporation or organization)

3312/3315/3317/3325/3399

(Primary Standard Industrial Classification Code Numbers)

P.O. Box 1670, Regina, Saskatchewan, Canada, S4P 3C7, Telephone: (306) 924-7700

(Address and telephone number of Registrant's principal executive offices)

Mr. B. Mooty - Gray, Plant, Mooty, Mooty & Bennett, P.A.**3400 City Center, 33 South Sixth Street, Minneapolis, Minnesota 55402-3796****Telephone: (612) 343-2800**(Name, Address, (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered pursuant to Section 12(b) of the Act: Common Shares

Securities registered or to be registered pursuant to Section 12(g) of the Act:**Title of Class: None****Securities for which there is a reporting obligation pursuant to Section 15(d)
of the Act: None****Information filed with this form:**☒ Annual Information Form ☒ Audited annual financial statements**Number of outstanding shares of each of the issuer's classes of
capital or common stock as of the close of the period covered by the annual report**
27,125,174 Common Shares outstanding as of 31 December 1997Indicate by check mark whether the Registrant by furnishing the information contained in this
Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b)
under the Securities Exchange Act of 1934.☐ Yes ☒ NoIndicate by check mark whether the Registrant (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the Registrant was required to file such reports), and (2) has
been subject to such filing requirements for the past 90 days.☒ Yes ☐ No

A number of the documents incorporated by reference herein contain forward-looking statements. Certain statements in this Form 40-F constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. See "Note Regarding Forward-Looking Statements" on page two of the IPSCO Inc. 1997 Annual Report.

UNDERTAKING

IPSCO Inc. undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, IPSCO Inc. certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

DATED this 27th day of February, 1998.

IPSCO Inc.

By : 

Edwin J. Tiefenbach,

Vice-President and Chief Financial Officer

Exhibit Index

Exhibit No.	Description	Page No.
1.	Annual Information Form of IPSCO Inc. dated 27 February 1998	
2.	Consolidated Financial Statements for the fiscal years ended 31 December 1997 and 1996 and including a U.S. GAAP reconciliation note, together with the auditors' report thereon	
3.	Management Discussion and Analysis of Financial Condition and Results of Operations for 1997	
4.	Consent of Auditors	
5.	IPSCO Inc. 1997 Annual Report	
6.	Introducing IPSCO	
7.	Management Proxy Circular and Notice of Annual Meeting dated 27 February 1998	

27 February 1998

IPSCO Inc. Annual Information Form

INCORPORATION BY REFERENCE

Additional items comprising part of this Annual Information Form are disclosed in portions of the Company's:

- 1997 Annual Report, Management Proxy Circular, Introducing IPSCO, Management Discussion and Analysis of Financial Condition and Results of Operations (M,D & A) for the fiscal year ended 31 December 1997; all dated 27 February 1998; and
- the Audited Annual Consolidated Financial Statements for the fiscal year ended 31 December 1997 and the related notes.

The portions of these documents described below are incorporated herein and form an integral part hereof.

AIF	Annual Report	Proxy Circular	Introducing IPSCO	MD& A	Audited Financial Statement
Item 1 (1) Incorporation	Back Inside Cover		Page 1		
Item 1 (2) Corporate Structure	Back Inside Cover				
Item 2 General development of the Business			Pages 1, 3		
Item 3 (1) (a)(i),(b),(c) Product, markets and distribution	Pages 10-14		Pages 5-6		Note 1
Item 3 (1) e Raw Materials			Pages 3		
Item 3 (1) f Intangibles			Page 6		
Item 3 (1) n Principal Properties			Page 2		
Item 3(2) a Competitive conditions	Pages 11-12 Pages 23-26			Pages 22-23	
Item 3(2) b R & D	Pages 21				
Item 3(2) c Environmental	Pages 36-39			Page 23	

(AIF)

AIF	Annual Report	Proxy Circular	Introducing IPSCO	MD& A	Audited Financial Statement
Item 3(2) d Number of employees	Page 1				
Item 3(2) e Foreign Operations Risks	Pages 23-26				
Item 4 (1) Financial Summary	Page 43				
Item 4 (2) Quarterly Summary				Page 14-15	
Item 4 (3) Dividend Payment Restriction					Note 11 Page 15
Item 5 MD&A				Entire document incorporated by reference	
Item 6 Exchanges	Page 42				
Item 7 Directors and Officers		Pages 2-6, 12, 13			

ADDITIONAL INFORMATION

The rights of the holders of common shares of the Company are subject to the provisions of a Shareholder Rights Agreement dated 14 March 1990, as amended 20 April 1995, between the Company and Montreal Trust Company of Canada.

The Company will provide to any person, upon request to the Secretary of the Company:

- (1) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
 - (a) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;
 - (b) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statement of the Company subsequent to the financial statements for its most recently completed financial year;

- (c) one copy of the management proxy circular of the Company in respect of its most recent annual meeting of shareholders; and
 - (d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (a) to (c) above; or
- (2) any other time, one copy of any document referred to in (1) (a), (b), and (c) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information in respect of directors' and executive officers' remuneration, principal holders of the Company's securities and options to purchase securities is contained on pages 2, 4 and 7 through 12 of the Company's Management Proxy Circular dated 27 February 1998 and additional information is provided in the Company's consolidated financial statements for the fiscal year ended 31 December 1997. Copies of these documents may be obtained upon request from the Assistant Secretary of the Company, P.O. Box 1670, Regina, Saskatchewan, S4P 3C7.

For further information regarding the Company contact:

Anne Parker

Assistant Secretary

P.O. Box 1670, Regina, Saskatchewan, S4P 3C7

Telephone: (306) 924-7700 email: aparker@ipsco.com